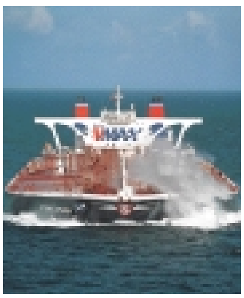
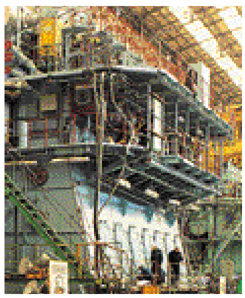
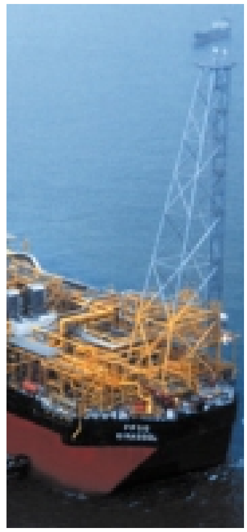
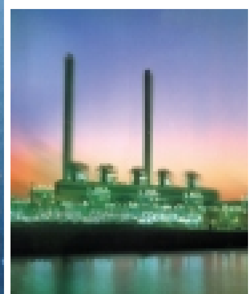
Annual Report **2001**

## Where the Future is Built

HYUNDAI HEAVY INDUSTRIES

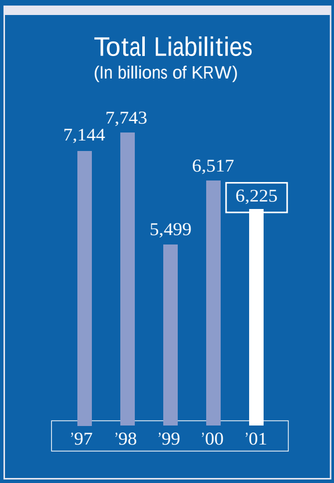
# Expanding the Frontiers of the Heavy Industry


Founded in 1973, Hyundai Heavy Industries Co., Ltd. (HHI) has established itself as a global leader in the heavy industry sector. Since its foundation, HHI has built a strong record of accomplishments in various fields, while contributing significantly to development of the Korean economy.

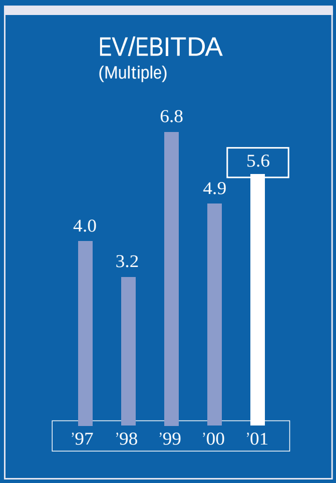
Capitalizing on its cutting-edging technology and extensive experience, HHI currently manufactures a wide range of industrial products, including ships, offshore structures, engines, electro-electric equipment, industrial plants and construction equipment. As such, the company will continue to develop state-of-the-art technology, while reinforcing its reputation as an undisputed global leader in shipbuilding and other heavy industry sectors. HHI will also remain committed to maximizing value for our clients the world over.

# Contents





Total Liabilities
(In billions of KRW)
7,144
7,743
5,499
6,517
6,225
'97 '98 '99 '00 '01

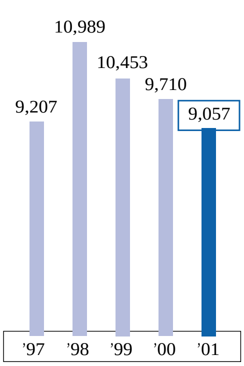
EV/EBITDA
(Multiple)
4.0
3.2
6.8
4.9
5.6
'97 '98 '99 '00 '01

# Operating Highlights

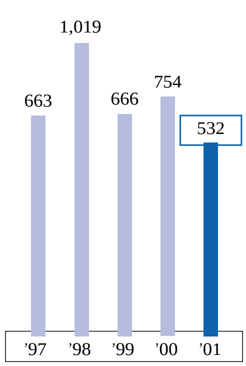
| | (In millions of US$) 2001 | (In billions of KRW) 2001 | 2000 | 1999 |
|---|---|---|---|---|
| **For the Year** | | | | |
| Sales | $ 5,583.5 | W 7,404.2 | W 6,626.1 | W 6,327.3 |
| Gross Profit | 915.2 | 1,213.6 | 1,279.2 | 1,191.9 |
| Operating Income | 401.4 | 532.3 | 753.7 | 666.4 |
| Net Income | (58.9) | (78.1) | (161.5) | 322.8 |
| **At Year-end** | | | | |
| Total Assets | 6,829.9 | 9,057.1 | 9,710.3 | 10,453.1 |
| Total Liabilities | 4,694.0 | 6,224.8 | 6,516.9 | 5,498.6 |
| (Total Debt) | 2,830.6 | 3,753.7 | 3,787.4 | 2,954.3 |
| Total Shareholders' Equity | 2,135.9 | 2,832.4 | 3,193.3 | 4,954.5 |
| **Financial Ratio** | | | | |
| Liability to Equity (%) | 219.8 | 219.8 | 204.1 | 111.0 |
| Debt to Equity (%) | 132.5 | 132.5 | 118.6 | 59.6 |
| EBITDA | 739.0 | 980.0 | 1,092.7 | 970.6 |
| EV/EBITDA (Multiple) | 5.6 | 5.6 | 4.9 | 6.8 |
| **Orders Received and Backlog** | | | | |
| Orders Received During the Fiscal Year (bil.US$) | | 6.4 | 7.7 | 5.5 |
| Backlog at Fiscal Year-end (bil.US$) | | 10.0 | 9.1 | 7.0 |

* Note: Won amounts for FY2001 have been translated at W,326.1 per US$1.00, the basic rate as of Dec. 31. 2001.

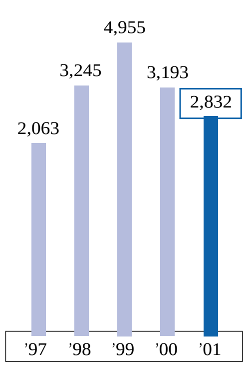
Total Assets
(In billions of KRW)




Operating Profit
(In billions of KRW)




Shareholders' Equity
(In billions of KRW)

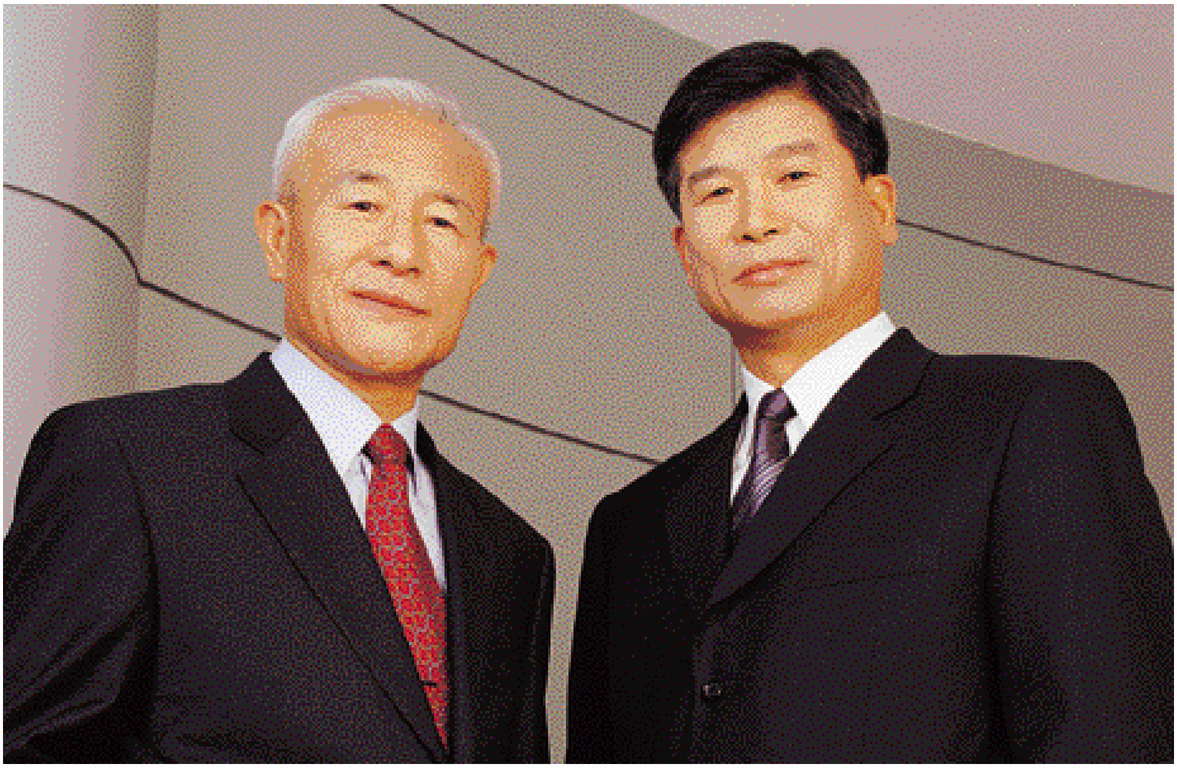


# To Our Shareholders & Clients

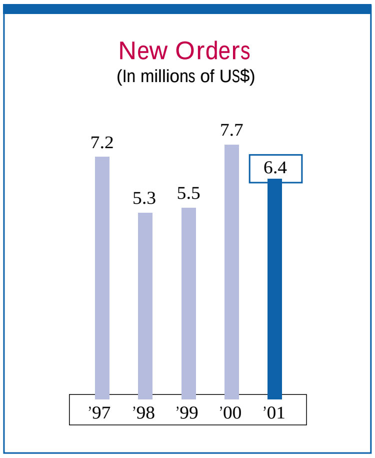
The year 2001 was truly a momentous period on many fronts, including the political and economic. The U.S. economy exhibited further signs of a downturn after 10 consecutive years of steady growth, while Japan's economic difficulties continued to deteriorate. Amid mounting global uncertainty, particularly in the aftermath of the September 11 incident in the United States, Korea's merchandise exports suffered continuous monthly declines. Likewise, capital expenditure and plant operation ratios were on a downswing. Indeed, it would be no exaggeration to characterize 2001 as Korea's worst year since the financial crisis of 1997-98.

Despite these daunting challenges in the business environment at home and abroad, Hyundai Heavy Industries (HHI) made significant strides in 2001, aided by the total team effort of our staff and the unwavering support of our shareholders. The Shipbuilding Division set a new sales revenue record of 3,784 billion won, the highest since our shipyard was established in 1973, along with the consumption of a record 1.03 million tons of steel plate. Of special note, HHI became the world's first shipyard to build a new-breed twin-skeg VLCC, the Stena Vision, which was listed as one of the world's best ships of 2001. In fact, ships constructed by HHI have been included on the best-ship lists for 19 consecutive years.

In addition, HHI received a newbuilding order from the Norway-based Golar LNG Ltd. for two Moss-type LNG carriers in July 2001. Both companies later agreed



to switch the second of these ships to a Membrane-type LNG carrier. As such, HHI became Korea's first shipyard to build both Moss- and Membrane-type LNG carriers. These achievements will better position HHI to win orders for LNG carriers and other high value-added ships in the global shipbuilding market.




The Offshore & Engineering Division received a US$800-million order to build an ocean crude oil drilling facility for Angola's Kizomba project from ExxonMobil Co. Of note, this project will be performed under an EPIC (engineering, procurement, installation and construction) contract. The Division received a record US$2.05 billion of new orders in 2001, the largest sum since it was established.

HHI also marked a milestone in its engine business. The Engines & Machinery Division completed 30 million bhp of engine production in 21 years, the shortest period to reach that goalpost in the history of marine engine production. In addition, HHI's high-powered, environment-friendly HiMSEN engine demonstrated its technological competence as it was cited by the government as one of "Korea's Ten Best New Technologies of 2001," while at the same time solidifying HHI's reputation as the world's best engine marker.

The Electro Electric Systems Division successfully developed an 800 kV gas insulated switchgear (GIS) after three years of research. A long-term contract has already been secured to supply this switchgear to Korea Electric Power Corp.

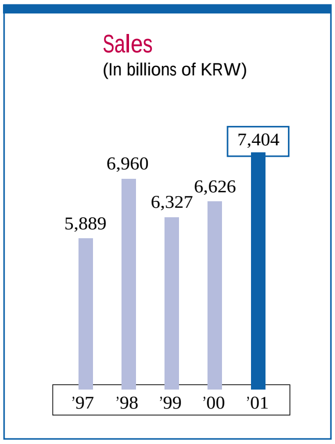
Meanwhile, the Industrial Plant & Engineering Division plans to liquidate its low-margin businesses, following the suspension last year of its industrial machinery segment, in accordance with a restructuring drive to eliminate loss-making operations that have weighed upon its bottom-line performance for years. The Division will commit available resources to four core fields - power-generation, desalination, crude oil/gas drilling and port facilities - in an effort to enhance its global competitive edge.

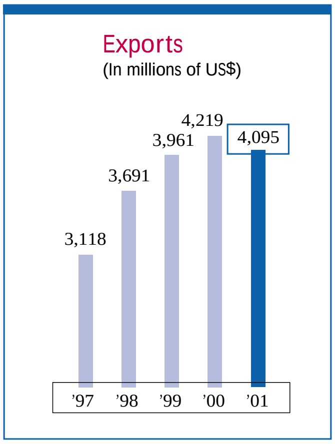
Since advancing into the Chinese market as part of HHI's plan to expand its overseas production base, the Construction Equipment Division has scored several noteworthy achievements. It currently holds the largest share of the excavator market in China, primarily attributable to its strenuous localization efforts and production of differentiated construction machinery, which resulted in maximum customer satisfaction.

Meanwhile, in September of last year, HHI was selected as one of the most popular employers among Korean companies by the Asian Wall Street Journal.

## Outstanding Performance

Reviewing the company-wide performance in 2001, sales revenue grew 11.7% over the previous year to a record 7,404 billion won. Nevertheless, the company reported a net loss of 78.1 billion won, primarily due to losses from the disposal of investment securities




under its disaffiliation program, and losses from equity method evaluation.

New orders in 2001 totaled US$6.4 billion, representing 94.4% of the company's original goal for the year. Exports reached US$4.1 billion, slightly more than the original target. This accomplishment led to HHI's being awarded the "US$4-billion Export Tower" by the Korean government in 2001, just two short years after receiving the "US$3-billion Export Tower."

## Business Environment and Outlook for 2002

The global economic uncertainty that clouded much of 2001 is expected to linger on into 2002. The depreciation of the Japanese yen has put Korean shipbuilders at a disadvantage in the shipbuilding market, while the Chinese shipbuilding industry is increasing its international profile. Adding to our concerns, global demand for shipbuilding will likely remain sluggish throughout 2002 because of shrinking shipping volume and sagging capital expenditure, both of which stem from the worldwide economic downturn. In response to this challenging operating environment, we will push forward with fundamental changes in the heavy industries sector and take key strategic initiatives.

HHI will strive to achieve the following goals aimed at ensuring steady growth in the year ahead:

- HHI sets its target for new orders at US$7.9 billion, up 23% over the previous year.

- Supported by relatively bright business prospects in the shipbuilding, offshore and industrial plant segments, HHI is targeting total sales of 8,458 billion won, up 14% over the previous year.

- Capital expenditure is projected to decline by 4.7% to 350.5 billion won, as the company seeks to improve its financial structure and cash flows.

- R&D investment will be expanded by 21.1%, amounting to 107.8 billion won, reflecting HHI's determination to secure the world's best technologies in its core businesses.

With a view to accomplishing these objectives, management focus will be placed on the following three areas:

- First, strengthening profitability and ensuring sound growth will be our top priority, and to that end, we will commit available resources to our key business segments, while maximizing operational efficiency. Financial resources will be concentrated on highly profitable businesses and those with the greatest growth potential. Marginal businesses with little prospects of survival will be phased out, with their manpower and facilities shifted to business segments with brighter prospects.

- Second, we will seek to develop core technologies in our key businesses and to accelerate technological development in other areas, thereby preserving our technological supremacy. Technological resources will be channeled toward the development of core technologies of main products, while each business division will forge closer technological relations with the R&D centers. The company will also explore ways to maximize product profitability through efficient adaptation of information technology, enabling HHI to strengthen its competitive edge in the global arena.

- Third, our entire management and staff will work to build an environment of harmony and cooperation. A mutually rewarding management-labor relationship will be nurtured based on new partnerships between management and employees.

### 30th Anniversary

This year bears much significance for HHI. Our company celebrates its 30th anniversary in 2002, and

on February 28, completed its disaffiliation from the Hyundai Group. This occasion serves to put our company on course to achieve significant improvements in terms of financial soundness and independence of operation.

We shall continue to revere and emulate the spirit of our founder Mr. Chung Ju Yung-a spirit that has enabled HHI to evolve from a small company into one of the world’s foremost heavy industrial enterprises during the past three decades. Rearmed with this enterprising spirit, we will dedicate ourselves to promoting management transparency and maximizing shareholders’ value, while responding swiftly to the rapidly changing business environment in the years ahead. In doing so, we again seek your valued support, trust, and interest.

Thank you.

March 2002

President & CEO Kil Seon Choi

President & CEO Keh Sik Min

# Major Performance

Delivery of World's Largest Ore Carrier (323,000 DWT)
/ December 1986

HHI delivered a 323,000 DWT ore carrier, "Berge Stahl," to Bergesen D.Y. A/S of Norway. The ship was listed in the Guinness Book of World Records as the largest bulk carrier ever constructed.

Manufacture of World's Largest Jacket (40,000 ton) / April 1989

HHI successfully manufactured a 380-meter-long, 40,000-ton oil drilling jacket, the world's largest, for Exxon of USA in April 1989 after 41 months of construction. The jacket was loaded onto a ship in May the same year and installed at the California coast.

Korea's First LNG Carrier "Hyundai Utopia" Delivered
/ June 1994

HHI delivered Korea's first LNG carrier to Hyundai Merchant Marine on June 1, 1994. This 125,000 $m^3$ Moss-type "Hyundai Utopia" with four independent spherical tanks of 40m in diameter is 274m long, 47.2m wide and 26.5m deep.

World's Largest Jack-Up Platform / July 1995

HHI completed the construction of the world's largest 24,300-ton Jack-up Platform ordered by BP in July 1995. This facility, built on the ground, was loaded onto a ship by employing strand jacks. The hydraulic method utilized in the loading is now considered the basic method for loading large-scale offshore structures onto ships.

100,000 BPSD Grassroots Oil Refinery /1986-1988 &
200,000 BPSD Oil Refinery Expansion Project / 1994-1996

HHI has completed the Grass-roots Refinery and Expansion project for Hyundai Oil Refinery Co., Ltd, which featured the deep conversion process such as Hydrocracking and Delayed Coking Units in Daesan, Korea.

Semi-Submersible Drilling Rig Ordered by U.S. R&B
/ February 2000

HHI completed the construction of semi-submersible drilling rig ordered by R&B Falcon of USA. The crude oil drilling rig was manufactured by an innovative "ground integration method," the world's first in its kind, demonstrating HHI's technological supremacy in the field. The rig was installed at the Gulf of Mexico.

50 LT Super Post Panamax Container Crane / October 2000

HHI delivered four sets of 50LT Super Post Panamax Container Crane to Charleston Port Authority, USA. The company has delivered 80 units of Transtainer to customers worldwide by the end of 2001.

Completion of World's Largest Elf Girassol FPSO
/ February 2001

HHI completed the world's largest FPSO (Floating, Production, Storage & Offloading) ordered by France's MPG (Mar Profundo Girassol). This facility was installed at the Angola Girassol oil field. HHI's construction of the facility's hull and topsides simultaneously enabled the company to prove its capability to implement of FPSO projects on a turnkey basis.

Accomplishment of 70 Million DWT in Ship Delivery
/ April 2001

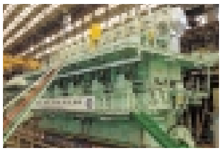
HHI surpassed 70 million DWT in aggregate ship production. This achievement was realized just 29 years after ground was broken for the Ulsan Shipyard and was an unprecedented world record for the largest tonnage built in the shortest time.

"Stena Vision," a 315,000 DWT Twin-Skeg VLCC / April 2001

The new type twin-skeg 315,000 DWT VLCC, Stena Vision built by HHI, was delivered to Concordia Maritime, Sweden, on April 24, 2001. The vessel with two separate engines, propellers, rudders and steering gears has length of 320m, width of 70m and depth of 25.6m with a shallow design draft of 16.76m.

30 Million bhp for Ship Engines Reached / April 2001

Ever since manufacturing the first diesel engine in 1979, HHI has been recognized for its expertise and high quality by ship owners the world over. HHI has recorded remarkable growth as its accumulative production of two-stroke diesel engines reached 10 billion bhp in 1992, 20 billion bhp in 1997, and 30 million bhp in 2001 in the shortest period in the world.



Record Renewed for World's Most Powerful Ship Engine / May 2001

HHI, which has led the 'Super Engine' market by building five 93,120-bhp engines in September 2000, reaffirmed its status as No.1 engine maker. HHI successfully manufactured the world's most powerful diesel engine having a power of 93,360 bhp in May 2001. HHI also manufactured and delivered the world's largest 101.5-ton propeller to be installed at a 7,200-TEU containership along with this engine.

Contracted to Design Next-Generation KDX-III Destroyer / April 2001

HHI has been accredited by the Korean Navy to design 9,000 ton class Destroyer, KDX-III that is comparable to AEGIS Class Destroyer of the U.S. Navy. The KDX-III Destroyer is a next-generation Air Defense Destroyer that will be designed with the latest top-class warship technology highlighted in "Stealth and Survivability."

800kV GIS Developed / August 2001

The Electro-Electric Systems Division developed an 800 kV gas insulated switchgear (GIS) after three years of research. This cutting-edge GIS technology is now exploited by only a handful of heavy industry companies in the world. The Division recently signed contracts with KEPCO of Korea to supply eight GIS units by 2004.

360 MW Haripur Combined Cycle Power Plant / October 2001

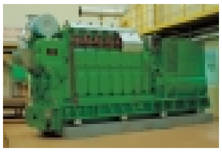
HHI delivered a 360MW CCPP to AES, which is located at Haripur, Bangladesh. Based on a reputation for dependability, HHI is now constructing another 450MW Meghnaghat CCPP in Bangladesh, which is to be completed by the end of 2002.

Top Spot in China's Excavator Market / December 2001

HHI ranked No. 1 in the field of excavators in China in 2001. Its excavator sales in China totaled 1,970 units with sales reaching US$150 million. Since its establishment in 1995, the Changzhou subsidiary has recorded 60% to 100% growth annually. The company has strengthened its marketing in China after concluding an official sponsoring contract with China's national football association for the Korea-Japan 2002 World Cup.

"HiMSEN" Selected as one of Korea's 10 Best New Technologies / January 2002

HiMSEN H21/32 & H25/33, Korea's first home-designed four-stroke diesel engine for marine and stationary use, was selected as one of "Korea's Ten Best New Technologies of 2001" by the government. This powerful and environment-friendly HiMSEN engine has realized the world's best performance and technology.



# Review of Operations

## ▶ At a Glance

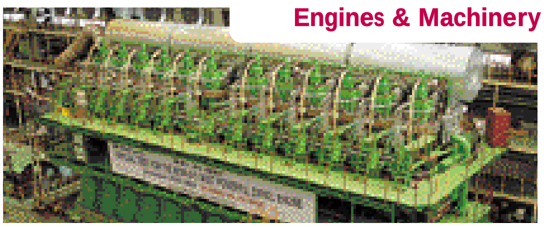
### Business Profile

**Shipbuilding**

The Shipbuilding Division is equipped with the most up-to-date facilities from fully automated steel-cutting lines to an environmentally controlled painting shop. HHI, which features nine dry docks and super-size goliath cranes, is capable of building 60 ships (6 million DWT) annually. Of note, Dry Dock #3 is the largest one of 1 million DWT capacity. Since 1983, ships built by HHI have been included on best-ship lists for 19 consecutive years.

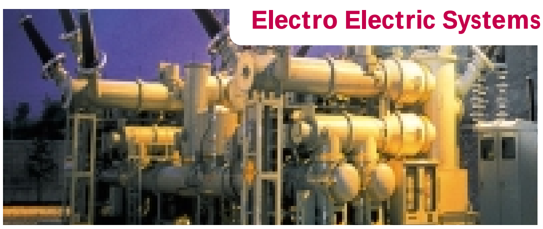
**Offshore & Engineering**

HHI provides a comprehensive range of services to clients for any type of offshore facilities as an EPIC contractor. HHI is one of a few specialized offshore contractors in the world that is capable of providing “one-stop solutions” for ever-expanding offshore floating facilities, including FPSOs and semi-submersible rigs.



**Engines & Machinery**

With an annual production capacity of 6.2 million bhp of diesel engines, the Engines & Machinery Division has distinguished itself as a world leading engine builder having a 35% global market share in marine diesel engines. Based on its leading position in marine diesel engine production, the Division has expanded its activities into diverse fields, such as Diesel Power Plants, Automation & Robotics Systems, Industrial & Marine Pumps, Presses, Strip Process Lines, and Conveyor Systems.



**Electro Electric Systems**

The Electro Electric Systems Division has been engaged in the designing, engineering and manufacturing of wide-ranging electrical equipment related to power generation, transmission and distribution as well as industrial system engineering under strategic alliances with leading global partners in the industry. HHI is internationally recognized as an environment-friendly enterprise with the acquisition of ISO14001 and OHSAS 18001.

**Industrial Plant & Engineering**

The Industrial Plant Division provides a broad range of products and services as an EPC contractor in the field of power plants, environmental facilities, oil and gas production, gas processing, petroleum refining plant, desalination plants and industrial cranes by capitalizing on its advanced facilities and expertise in fabrication of key components. The Division strives to understand the needs of each customer and to provide the best knowledge and experience to meet those needs.

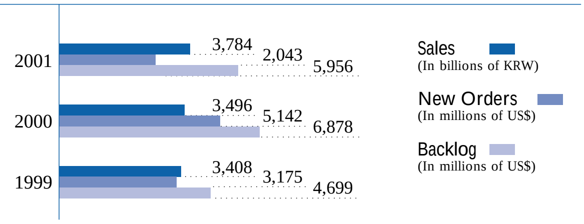
**Construction Equipment**

The Construction Equipment Division, which was founded in 1985, has the capacity to turn out 10,800 units of construction equipment and industrial vehicles, including excavators, wheel loaders, forklifts and skid steer loaders. The Division’s plans call for focusing on advanced computerized systems, such as PDM (Product Data Management) systems, which can reduce product design time, manage data efficiently and shorten the process cycle time

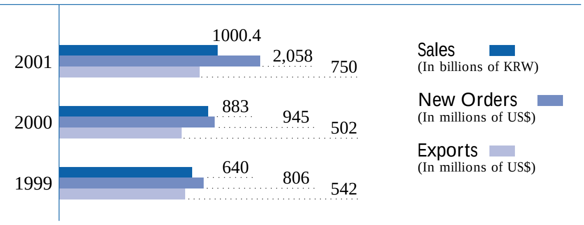
## Main Products

## Key Figuers

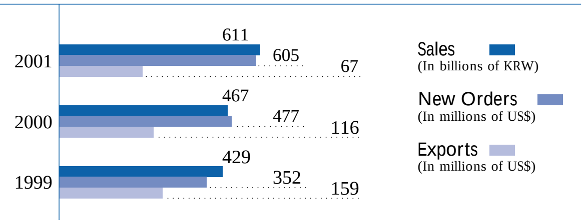
- Tanker, Chemical Tanker
- Bulk Carrier, Product Carrier
- Containership, OBO Carrier
- Passenger Ship, Ro-Ro Ship, Pure Car Carrier
- LNG Carrier, LPG Carrier,
- FPSO/Offshore Drilling Rig/Barge



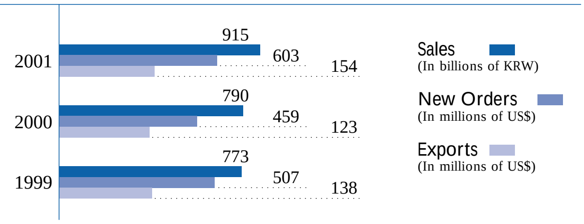

- Floating Units: Semi-submersible Rig, FPSO, TLP, SPAR
- Platforms: Jacket/Pile, Deck, Module, Quarters, Production Jack-up
- Offshore Installation: Heavy Lift Installation, Undersea Pipeline, Hook-up & Commissioning



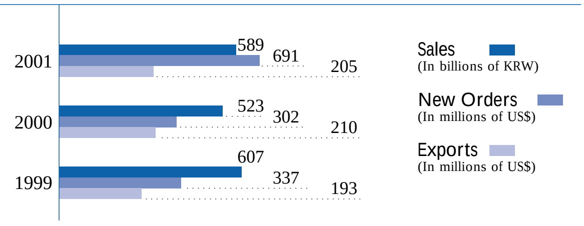

- Diesel Engines (2-Stroke Diesel Engine, 4-Stroke Diesel Engine, HiMSEN Engine)
- Marine Equipment (Propeller, Shaft, Rudder Stock)
- Marine & Industrial Turbines
- Diesel Power Plants
- Automation & Robotics Systems
- Industrial & Marine Pumps
- Advanced Industrial Machinery



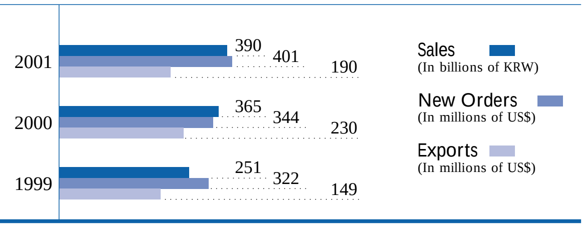

- Transformers
- High Voltage Circuit Breakers
- Switchgears
- Medium & Low Voltage Circuit Breakers
- Rotating Machinery
- Integrated Control & Monitoring Systems
- Power Electronics




- Oil & Gas production/Gas processing
- Petroleum Refining
- Desalination Plant
- Power Plant, Co-generation Plant
- Environmental Engineering & Plant
- Industrial Cranes




- Crawler Excavators, Wheel Excavators, Wheel Loaders, Forklifts, Skid Steer Loaders, Crawler Dozers, Forestry Equipment, Hydraulic Machinery




*Sales & new orders secured from HHI's other business segments are excluded.

# ▶ Shipbuilding

Despite the difficult business climate impacted by the global economic downturn and the September 11 terrorist attacks in the United States, HHI turned in an impressive performance in 2001. The company received new orders for 29 ships valued at US$2 billion. Although this achievement was short of that recorded in the previous year, it reflected HHI's prudent business strategy. Since the company had secured an exceptionally large volume of orders in 2000, management put a greater emphasis on profitability in 2001.

The new orders included six LNG carriers worth US$1.02 billion (total 684,000 DWT) - two ships from Norway-based Golar LNG Ltd. and four from Nigeria-based Nigeria LNG Ltd. Five ships are 137,000 $m^3$ Moss-type vessels and one is a 140,000 $m^3$ Membrane-type vessel. In early 2001, HHI also secured orders for two LPG carriers from Japan-based Mitsui Osaka Line (MOL) and Shinhwa Kaiun, which are classified as high value-added vessels along with LNG carriers.

*Dry Dock #2 with a capacity of 700,000 DWT*

HHI is the first Korean shipyard that will undertake the building of both Moss- and Membrane-type LNG carriers. The new 140,000 $m^3$ Membrane-type carrier measures 280 meters in length, 43 meters in width and 26 meters in depth, making it the world's largest LNG carrier of its type. As such, HHI will be well positioned to play a leading role in the shipbuilding market for LNG carriers in the years ahead.

HHI successfully delivered 57 ships in 2001, with total revenue amounting to 3,784 billion won, which exceeded the year's sales target in shipbuilding. Of note, HHI became the world's first shipyard to build a next-generation twin-skeg VLCC successfully, in addition to a 7,200-TEU containership that was listed as the largest in the world.

Built by HHI, the Stena Vision, a 315,000 DWT twin-skeg VLCC, was recognized as one of the world's best ships of 2001 by two maritime journals published in the United States, Maritime Reporters & Engineering News and Marine Log. The ship was delivered to Concordia AB of Sweden in April 2001. Since 1983, ships constructed by HHI have been included on best-ship lists for 19 consecutive years. The Stena Vision, measuring 333 meters in length, 70 meters in width and 25.6 meters in depth, is powered by two engines and two propellers, and can still navigate if one engine should break down.

As of December 2001, HHI has delivered a total of 995 ships (74 million DWT) since the launching of its first ship in 1974. This has included 274 bulk carriers (24.2 million DWT); 169 crude oil tankers (31.4 million DWT); 178 containerships (7.7 million DWT); 34 pure car carriers (450,000 DWT); 28 LPG carriers (373,000 DWT); 18 Ro-Ro ships (245,000 DWT); seven LNG carriers (467,000 DWT); seven offshore rigs/barges (103,000 DWT); 214 other commercial vessels (9.1 million DWT) and 66 special & naval ships (120,000 DWT).

The global demand for shipbuilding is likely to remain weak in 2002 primarily due to a sluggish shipping market impacted by the global economic downturn. However, the demand for LNG carriers is likely to remain relatively strong amid steady expansion of the clean energy market. Moreover, an increasing number of superannuated crude oil tankers are expected to be replaced by new ships that comply with new regulations of the International Maritime Organization (IMO). New orders for containerships, however, will likely remain flat due to declining rates stemming from substantial backlog, as well as the current oversupply of containerships.

The Shipbuidling Division is forecasting 3,778 billion won in total revenue in 2002, as compared to the previous year. New orders will reach an estimated US$3.1 billion (56 ships). In particular, HHI will intensify its sales activities for high value-added ships, including LNG carriers. Overall, the company will work aggressively to promote optimal profitability and growth.

# HHI has delivered a total of 995 ships with 74 million DWT


*The Stena Vision, a 315,000 DWT twin-skeg VLCC*

# ▶ Offshore & Engineering

Global demand for floating facilities, which can be used at ocean depths of 500 meters to 3,000 meters, began to emerge in the mid-1990s. These facilities include FPSOs (floating, production, storage and offloading), semi-submersible drilling rigs, and TLPs (tension-leg platforms). As a result, HHI has been supplying various floating facilities to clients the world over in recent years.

In particular, we take much pride in the fact of being the world's first company to build a semi-submergible drilling rig on the ground, which was also the world's largest Girassol FPSO project. To date, HHI has undertaken wide-ranging projects for 30 leading oil companies, including ExxonMobil, Shell, BP, TotalFinaElf, ChevronTexaco, AGIP, ONGC and Philips, based on its rich experience and expertise in offshore projects. HHI also demonstrated its technological competence in the laying of undersea pipelines, construction of ground oil and gas storage facilities, large bridges and other structures. Of note, the company was awarded a large-scale FPSO project (Kizomba Project) valued at about US$800 million in August 2001. The company also received a US$300 million order from Unocal of Indonesia to build an undersea pipeline and floating facilities (West Seno Project) for natural gas production, in addition to a US$300 million order from Maersk of Qatar to construct a crude oil production facility (Block 5 Project) in September 2001.

*The world's largest Girassol FPSO*

## Building US$800 million Kizomba FPSO

The West Seno Project, which will be installed at the water depth of 65 meters, includes 10 platforms and four compression modules, weighing about 37,000 tons, and is scheduled for delivery in June 2003. In total, the company secured US$2 billion of new orders, along with over 1,000.4 billion won in revenue during 2001. These noteworthy achievements mean a more than 100% growth over the previous year. The global market for offshore structures is expected to expand annually by 8% on average through 2005, primarily attributable to stepped-up oil exploration activities in West Africa, Brazil and other areas. In 2002, the company is targeting US$1.8 billion in new orders and 1,500 billion won in revenue.

*The Topside of Girassol FPSO*

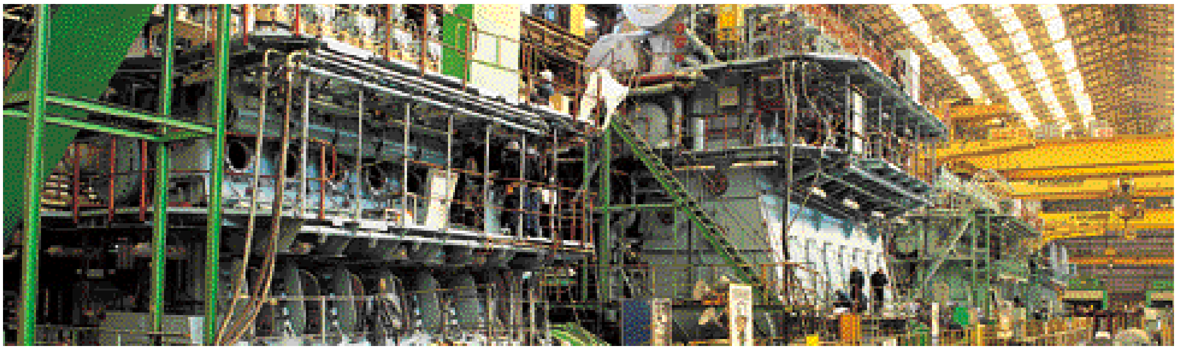
# ▶ Engines & Machinery

Since 1987, Hyundai Heavy Industries, the world's largest diesel engine maker, has turned out a total of 1,466 two-stroke diesel engines with a combined 34.3 million bhp and supplied them to 15 major shipyards in Germany, Denmark, Italy, Poland, the U.K., Brazil, Singapore, Taiwan, the United States and other countries. Indeed, HHI enjoys a 35% share in the global two-stroke diesel engine market and a 60% share in the domestic market. The Engines & Machinery Division has attained the top spot in the production of marine diesel engines since 1987.

In 2001, HHI's Engines & Machinery Division successfully manufactured the world's most powerful engine with 93,360 bhp and the world's largest propeller that weighs 101.5 ton, in testimony to its technological advance. This year's plans call for manufacturing 142 two-stroke diesel engines with a combined 4.7 million bhp; 412 four-stroke diesel engines with 790,000 bhp; 176 propellers and 293 shafts for ships; 95 industrial & marine pumps; and 1,000 industrial robots. Of particular note, the four-stroke HiMSEN engine, developed by HHI using its own technology, already acquired the DNV and KR quality certification, which has opened up exports opportunities. The HiMSEN was selected by the Ministry of Commerce, Industry and Energy as one of "Korea's Ten Best New Technologies of 2001."

## HiMSEN cited as one of Korea's 10 Best New Technologies

The Engines & Machinery Division recorded 611.1 billion won in sales in 2001, with new orders reaching US$605 million. Compared to the previous year, sales expanded by 30.8% and orders by 26.8%. Of late, the global market trend in the shipbuilding industry is that the market for Post-Panamax size containerships and VLCCs has declined, while the market for bulk carriers has expanded. Accordingly, HHI anticipates a small reduction in orders for super-size engines suited for Post-Panamax size vessels. But the non-engine segment is expected to secure a steady supply of orders in fields of industrial robots, conveyors, pumps, presses, factory automation systems and diesel power plants, since steady investments are expected in the automotive industry, desalination plants, and small-scale captive power plants.



*Trial Test for Two-stroke Diesel Engines*

# ▶ Electro Electric Systems

Driven by the development of innovative industrial electric systems in 2001, the Electro Electric Systems Division reaped impressive results on various fronts. Its revenue in 2001, for example, increased by 15.8% over the previous year to 914.8 billion won, while the Division's new orders amounted to US$603 million, up 27% year-on-year. These notable achievements were primarily attributed to HHI's intensified marketing activities targeted at overseas markets, including Asia, the Middle East and Africa, as well as industrialized countries such as the United States, Canada and European countries.

## Building on vast experience and expertise

Of particular note, the Division has teamed up with NIIVA (Scientific Research & Development Institute of High Voltage Apparatus) in Russia and developed 800kV gas insulated switchgear (GIS) after three years of intensive R&D efforts. This equipment has passed all the qualification procedures of Korea Electric Power Corp. and will significantly contribute to upgrading Korea's electric power industry. A high-voltage GIS enables the users to enhance power transmission with high reliability and extremely low loss rates. With only a handful of specialized companies having the advanced technology to produce this equipment, HHI once again proved its technology expertise with the successful development of 800kV GIS.

*Power Transformer / 765kV*

The Division has also developed magnetic contactors for the 21st century, targeting the global market. Magnetic contactors are used in the control systems of industrial plants, motor starters and ship facilities. Furthermore, HHI has localized main transformers for the Seoul-Busan High-Speed Railroad that is currently under construction, after satisfying strict performance testing. In 2002, the Division will commit available resources to expand its presence in the United States, Middle East and Asian markets. At the same time, the Division will strive to phase out non-profitable businesses as part of its ongoing restructuring efforts to bolster its product quality and price competitiveness in the global market.

# ▶ Industrial Plant & Engineering

Based on technological capabilities and diverse experience accumulated over the decades, HHI has successfully completed wide-ranging projects in Korea and overseas on a turnkey basis. These projects include the new 100,000 BPSD Grassroots Oil Refinery and 200,000 BPDS Oil Refinery Expansion Project, which featured the deep conversion process, such as Hydrocracking and Delayed Coking Units in Daesan, Korea, and the turnkey Diesel Hydro-treatment Desulfurization Project in India.

As a result of HHI's strategic focus on the African market as one of the most promising areas, HHI was awarded the Forcados Yokri Integrated Project, an associated gas-gathering project, and the Bonny Terminal Integrated Project in Nigeria by Shell Petroleum Development Company in 2001, respectively. As for power-generating facilities, HHI has successfully completed a number of power projects in Korea and overseas, totaling 7,201 MW with 44 units on a turnkey basis, including combined cycle power plants of 1,629 MW with 12 units, such as 325MW Makkah-Taif Thermal power plant in Saudi Arabia and 507MW Daesan combined cycle power plant in Korea.

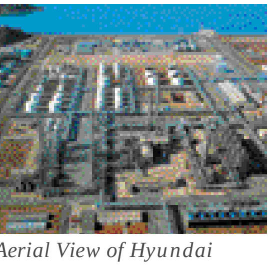
Utilizing our comprehensive engineering capabilities, we provide our customers with the most cost competitive and technologically advanced co-generation systems on a full turnkey basis. Also, HHI is the most distinctive contractor for the fabrication of industrial cranes, such as Transtainer and Portainer, and has supplied more than 80 units of both products to the world market over the years.

In 2001, the Industrial Plant & Engineering Division recorded 589 billion won in total revenue and US$ 691 million in new orders. These results represented increases of 12.7% and 128.5%, respectively, in comparison to the previous year. The Division's current strategy calls for strengthening its presence in the Middle East, Latin America and West Africa.

## EPC turnkey projects focused on Middle East, West Africa

*Sungnam Municipal Waste Incineration Plant, Korea*

*Al-khobar PH-II Desalination & Power Plant. Saudi Arabia*



*Aerial View of Hyundai Petrochemical Co., Ltd., Korea*

# ▶ Construction Equipment

Orders received by the Construction Equipment Division in 2001 amounted to US$401 million, a 16.6% increase over the previous year. Sales edged up by a relatively moderate 6.3% year-on-year gain to 389.6 billion won, primarily due to weakened demand in major markets, except China. HHI ranked No. 1 in the Chinese excavators market thanks to marketing of its popular product lines. Of note, the 7-Series has earned high acclaim at various international construction equipment shows. In the home market, HHI released new Big three models, including a five ton excavator, 13 ton wheel excavator and 29 ton crawler excavator. HHI maintained its leadership position in Korea's heavy construction equipment market, with sales in this sector exceeding the company's target.

## Exploring overseas markets for heavy equipment

Except for China, HHI's major markets, including the United States, Europe, Southeast Asia and Latin and South America, are likely to remain inactive in the first half of 2002, thus dampening the company's overall business prospects for this year. Nevertheless, the Construction Equipment Division cautiously expects that the equipment business will mark a turnaround in the second half of the year, and as such, will strive resolutely to realize 480 billion won in sales, US$496 million in orders and US$253 million in exports in 2002. To achieve these targets, the Division will accelerate its efforts to develop new technologies and innovative products, while strengthening its marketing activities abroad, especially in China. Overall, HHI will commit itself to significantly bolstering the international competitiveness of its construction equipment.

Furthermore, HHI plans to open a design and outsourcing center in Europe for the development of high-tech construction equipment, while utilizing China as its primary production base. Currently, HHI has the capacity to produce more than 10,800 units of construction equipment annually, while operating some 350 dealerships in 80 countries.

*Crawler Excavator / Robex 290LC-7*

# Moving Forward with Confidence

The employees of HHI work diligently to provide world-class industrial products and develop an array of innovative technologies to serve the needs of its clients the world over.

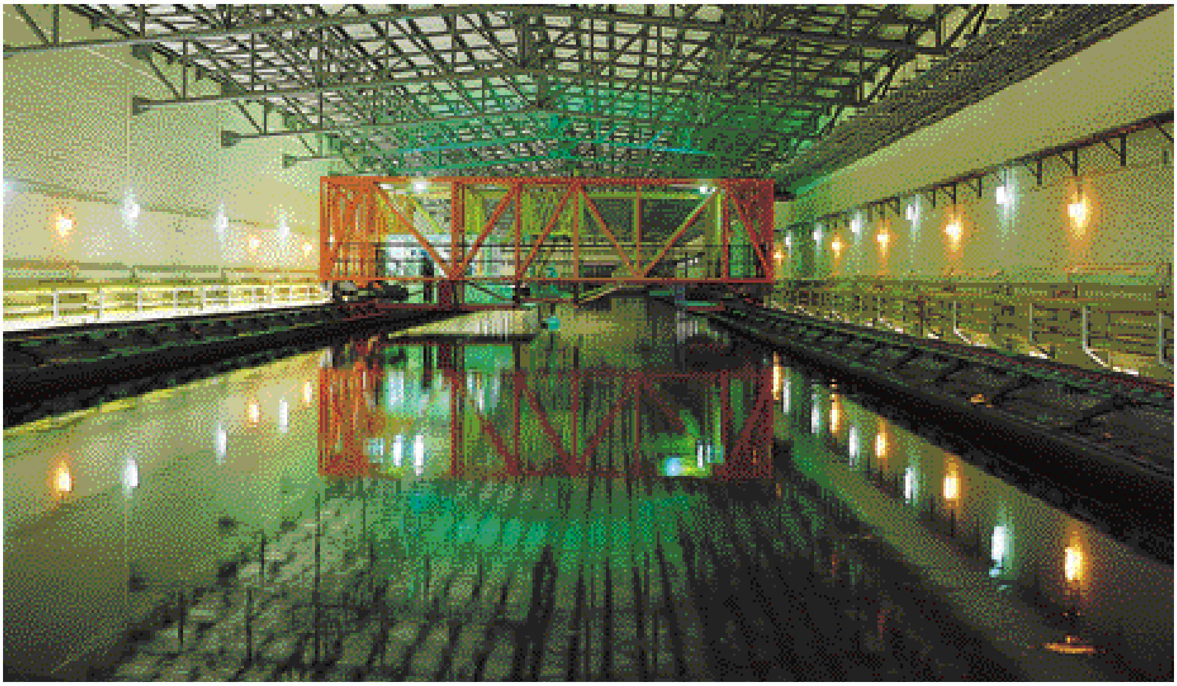
# Research & Development

To gain the upper hand for newly-developing technologies in the international high-tech race, HHI operates four research institutes and one technology managing center in its R&D Division, which are HMRI (Hyundai Maritime Research Institute), HIRI (Hyundai Industrial Research Institute), HEMRI (Hyundai Electro-Mechanical Research Institute), Techno-Design Research Institute and Intellectual Property Management Sub-division.

These labs are focused on developing technologies for high-value added ships, automated production facilities, environmental facilities, electro-mechanical system, and exterior designs of various products & structures.

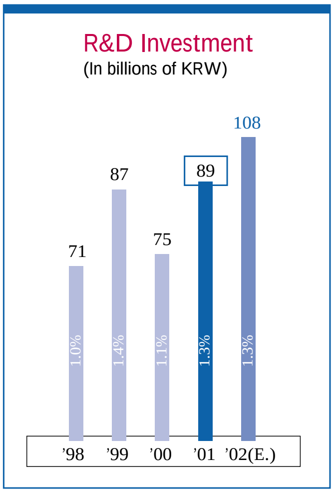
By establishing overseas technology cooperation committees and putting additional branch offices in the United States, Europe and Japan, HHI is building a global network of technology which will enable the company to absorb high-level technology directly from nations with an advanced technological base. Especially, R&D Division has included Intellectual Property Management Sub-division, while setting up a system to implement a comprehensive business strategy.

HHI is budgeting 108 billion won for R&D in 2002, a 21.1% increase over the previous year. HHI is also planning to increase investment annually in R&D (3,000 billion won by 2010). Consequently, HHI will head for technology reform and brighten a new way of technology development as a global leader.



*Towing Tank for Modelship Test*

## The major activities of HHI's R&D units are as follows:




### Maritime Research Institute

Covers research and development for various vessels, offshore structures, engines, pumps, and plant and construction equipment as well as related fields such as hydrodynamics, structural mechanics, noise and vibration.

### Industrial Research Institute

Deals with the development of automated production facilities such as welding machines and factory automation systems, along with the technology development of material-testing & application-related applications, environmental applications, and measuring instrument testing systems.

### Electro-Mechanical Research Institute

Focuses on R&D efforts for heavy electrical equipment, engine parts and plant facilities. It also pursues research on industrial electronics, robotics and power-related technology.

### Techno-Design Research Institute

Plays a main role in supplying exterior designs of various products and structures. Surely, it contributes significantly to enhancing the added value of products by acquiring its own design expertise.

### Intellectual Property Management Sub-division

Contributes to the promotion of technological innovation as well as the transfer and dissemination of recently developed technology. It also focuses on sharing technology-related knowledge and information in the company.


*Propeller Cavation Test*


*Measurement Equipment*


*Resistance & Propulsion Model Test*

# Enhancing Corporate Value

## ▶ Disaffiliation

In early 1999, the Hyundai Group announced a “choice & concentration” strategy under which its affiliate companies would be regrouped into five core business sectors - construction, electronics, heavy industry, auto and financial services - by the end of 2003. Led by Hyundai Motor, the Automotive Group completed its separation from the Hyundai Group as of September 1, 2000. Meanwhile, Hyundai Engineering & Construction and Hyundai Electronics were separated from the Group as of August 1, 2001.

Hyundai Heavy Industries strove diligently to conclude its disaffiliation by the end of 2001, in advance of the original target date (the end of 2003), for the purpose of enhancing the transparency and independence of its overall operations. HHI, which had already become independent from the Hyundai Group in terms of management, endeavored to complete its legal separation.

Though the separation process encountered a few obstacles which delayed legal disaffiliation, all the legal requirements of disaffiliation were finally met by Hyundai Merchant Marine’s disposal of its stakes in HHI and the settlement of Hyundai Asan’s stakes owned by HHI in February 2002. Accordingly, HHI was officially disaffiliated with the approval of the Fair Trade Commission as of February 28, 2002.

### Status of HHI Affiliates (As of Dec. 31, 2001)

| Company | Hyundai Mipo Dockyard Co., Ltd. | Hyundai Finance Corp. | Hyundai Venture Investment Corp. | Hyundai Futures Corp. (As of Mar. 31, 2001) |
|---|---|---|---|---|
| Representative | Kwan Hong Yu | Jae Keun Kim | Chung Keun Park | Jai Seong Lee |
| Date Founded | Apr. 28,1975 | Feb. 1,1996 | Apr. 8, 1997 | Feb. 1, 1997 |
| Business Line | Shipbuilding, Conversion, Repairing | Corporate Financing and Investment | Investment in Venture Firms | Financial Services |
| Majority Shareholder | HHI (27%) | HHI (67%) | Hyundai Finance Corp. (83%) | Hyundai Finance Corp. (60%) |
| Financial Status (In millions of KRW) | | | | |
| Total Assets | 1,065,051 | 239,216 | 86,376 | 62,428 |
| Liabilities | 805,870 | 124,615 | 19,854 | 43,768 |
| Total Capital | 259,181 | 114,601 | 66,522 | 18,660 |
| (Paid-in Capital) | 73,000 | 91,500 | 30,000 | 20,000 |

*Hyundai Futures’ FY2001 : 2001.4.1~2002.3.31

For a legal disaffiliation from the Hyundai Group under the provisions of the Fair Trade Act, HHI satisfied all the prerequisite as follows; First, HHI lowered its stakes in affiliate companies to below 3% for listed companies and below 15% for unlisted firms. In addition, the Hyundai Group reduced its stakes to below 3% for listed companies and 10% for unlisted firms. Second, all payment guarantees, along with loan transactions for domestic affiliate companies, were eliminated. Third, management executives of HHI no longer hold multiple positions in affiliates of the Hyundai Group.

### HHI's Affiliate Companies

As a result of HHI's separation from the Hyundai Group, HHI's current affiliates are Hyundai Mipo Dockyard Co., Ltd., Hyundai Finance Corporation, Hyundai Venture Investment Corporation and Hyundai Futures Corporation.

# Independent, Driven

# ▸ Vision & Strategy

"Global Leader"
"HHI is Charting the Future"

Hyundai Heavy Industries marked a turning point in its history in early 2002 when it concluded its disaffiliation from the Hyundai Group, which coincided with its 30th anniversary. The rapidly changing business environment surrounding HHI in Korea and overseas requires the company to constantly advance high technology and world-class products. Accordingly, HHI has come up with a new corporate vision, along with long-term management goals to ensure its realization.

HHI's new vision is "HHI is Charting the Future as a Global Leader." "Global Leader" reflects HHI's commitment to become the world's preeminent heavy industry enterprise that plays a leading role in development of the global heavy industry, based on its superior products and services. "HHI is Charting the Future" exemplifies the enterprising spirit of the company's founder, with which HHI will be capable of surmounting any challenge in the future.

HHI will strive resolutely to upgrade its technological levels to global standards, develop new higher value-added products and implement new profitability models. Furthermore, we will ensure our clients of maximum satisfaction and enhance value for our shareholders, while providing ideal working conditions for our employees.

### HHI's Long-term management goals include the following:

| 2001 | | 2010 | |
|---|---|---|---|
| Revenue | US$5.6 billion | Revenue | US$17.5 billion |
| (Domestic) | US$1.0 billion | (Domestic) | US$ 3.5 billion |
| (Overseas) | US$4.6 billion | (Overseas) | US$14.0 billion |
| | | Recurring profit | 10% |

Meanwhile, HHI plans to make a total investment of 5,000 billion won from 2002 through 2010. The total includes capital expenditure amounting to 3,400 billion won and R&D investment totaling 1,600 billion won.

By 2010, HHI plans to reduce its reliance on shipbuilding to a 26% share of revenue from the current 52%, while seeking to expand the shares of its industrial plants, offshore, and other business segments to 20% each for a stable business structure.

### Overview of HHI's management strategy:

**Optimize Business Structure**
- Reinforce infrastructure for growth-oriented businesses
- Expand market leadership in high-growth businesses with strong growth potential
- Promote new businesses related to core strengths and dispose of low-margin businesses

**Maximize Global Marketing**
- Maximize high value-added orders and sales
- Explore new markets through expanded ties with local business concerns
- Operate a competitive global marketing network

**Upgrade Technological Capability**
- Develop core technologies as well as state-of-the-art technical expertise
- Bolster system engineering capabilities
- Maintaining a global R&D network
- Maximize synergy between R&D institutes and business divisions

**Enhance Production Systems**
- Maximize facility efficiency
- Enhance productivity through facility automation and rationalization
- Build an integrated management control system

**Renovate Business Operations**
- Expand outsourcing of low value-added business operations and administrative affairs
- Promote flexibility in facilities, manpower and financial resources
- Secure global production bases

# People

## Dedication to employee welfare

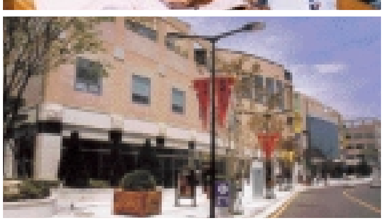
HHI's personnel policy is focused on two primary goals, the prosperity of our company and people-oriented management. As such, HHI seeks to sharpen its competitive edge by maximizing the potential of its employees, while striving to create an ideal working environment in which all employees can confidently pursue their professional and personal development.

In particular, the company's personnel policy is intended to foster "outstanding HHI employees." HHI helps employees develop into knowledgeable experts in their respective fields, maximize their global-oriented and personal capabilities, expand their IT knowledge base and realize self-enhancement. The company adheres to its belief that "talented employees are not born but fostered through their own efforts."

As for employee welfare, HHI is fully committed to enhancing the quality of life for their entire workforce. Major welfare programs include the provision of 15,000 apartment units at below-market rents for both married and unmarried employees, in addition to 555 dormitory facilities. The company also provides attractive vacation facilities for its employees, including condominiums, hotels and summer resort houses that are situated at various places throughout the country.

To build closer relationships with members of the communities that HHI serves, the company operates six community facilities, such as community halls and Hyundai Art Center, and six all season international standard



## Employees

| | Male | Female |
|---|---|---|
| Administration | 7,808 | 965 |
| Technical & Skilled Workers | 16,902 | 415 |
| Total | 24,710 | 1,380 |

* As of Dec. 31, 2001

grass soccer fields which will be used as a training camp of foreign soccer teams for 2002 World Cup. In addition, a variety of programs, including swimming, ice skating, foreign language studies and artificial rock-climbing, are provided with significantly low prices. The major beneficiaries of these programs are HHI employees' families.

Furthermore, the company manages two pro-sports teams, the Ulsan Hyundai Horangi Football Team and Hyundai Cokkiri Ssirum Team. HHI operates five secondary schools and three kindergartens to ensure quality education for our employees' children. Of late, the company has built 10 parking lots that accommodate 4,500 cars for the convenience of community members.

# The Environment

## "Greening" of HHI

HHI has implemented an environmental management system in line with the provisions of ISO14001 certification. HHI has also adopted advanced environmental management practices, such as Life Cycle Assessment and Environmental Performance Evaluation. HHI is genuinely dedicated to the production of environment-friendly products so that we all can enjoy a cleaner environment in the years ahead.

## EHS (Environment, Health and Safety) Policy

HHI management is well aware of the fact that the environment, health and safety are integral to people's well-being and successful business management. HHI will thus remain committed to undertaking the following actions in order to help improve the quality of life while developing into a global leader in the heavy industry.

### Environmental technology development and pollution prevention

- Development of energy-saving and environmentally-friendly products
- Cleaner production technology and environmental pollution prevention activities
- Actively complying with international agreements and legal requirements
- Publishing periodic environmental reports

### Guarantee basic requirements of safety and health

- Continual improvements in safety facilities and working environment
- Improving prevention systems to meet the goals of zero accidents and disease
- Education and training on accident prevention and health promotion
- Application and enforcement of strict internal regulations based on legal requirements



## Environmental Certification and Award

March 1997

Acquired ISO 14001 Environmental Management System Certification from Det Norske Veritas (DNV)

November 1998

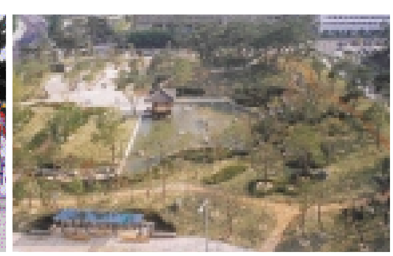
Selected as an excellent company for using “green energy”

May 2001

Acquired OHSAS 18001 Health and Safety Management System Certification from DNV

December 2001

Conferred the Presidential Award for energy conservation

# Forging Ahead--

# Financial Report

# Management's Discussion & Analysis

This section evaluates the company's business performance and efforts to improve its financial structure in the fiscal year of 2001, along with the results of its disaffiliation process. The company also seeks to discuss its intrinsic value and projected future value by providing detailed information about major outstanding issues.

## 1. Overview

Despite an adverse operating environment surrounding Hyundai Heavy Industries at home and overseas, HHI recorded notable achievements in 2001. The Shipbuilding Division's results were truly outstanding, with its total sales reaching 3,784 billion won, the highest ever since HHI was established in 1973, along with consumption of a record 1.03 million tons of steel plate. The Division initially received orders for two Moss-type LNG carriers from Golar LNG Ltd. of Norway in 2001, but both companies later agreed to switch the second of these ships to a Membrane-type carrier. Consequently, HHI became the first Korean shipyard to build both Moss-type and Membrane-type LNG carriers, and thus was better positioned to win orders for LNG carriers and LNG-related special ships.

In another notable achievement, the Offshore & Engineering Division received a U$800 million order to construct the world's largest FPSO for ExxonMobil. Winning this Angola Kizomba project despite fierce competition is expected to greatly enhance the Division's performance in other international bids for ocean oil exploring projects in West Africa and Brazil.

The total cumulative large engine production of the Engines & Machinery Division reached the 30-million bhp milestone in 2001. HHI reached this milestone in only 21 years, the shortest time of any company in the world to date. Furthermore, HHI's new HiMSEN engine that employs its own cutting-edge technology, was selected by the Korean government as one of "Korea's 10 Best New Technologies of 2001."

The Electro Electric Systems Division's impressive performance in 2001 is exemplified by the development of an 800 kV gas insulated switchgear (GIS). A long-term contract has already been secured to supply this GIS to the Korea Electric Power Corp.

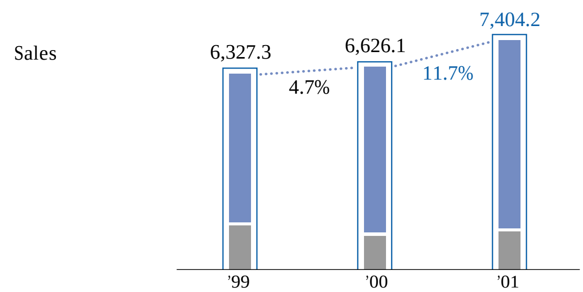
Finally, the Construction Equipment Division ranked first in the Chinese excavator market in 2001. This was primarily due to its strenuous efforts to enlarge its market share in the expanding Chinese construction equipment industry.

## 2. Continuous Growth

HHI managed to turn in an impressive performance in 2001, led by strong sales growth. The company's revenue in 2001 was up a solid 11.7% or 778.1 billion won to 7,404.2 billion won, as compared to the previous year's 6,626.1 billion won.

Reference 1

Sales growth during past three years (in billions of KRW)



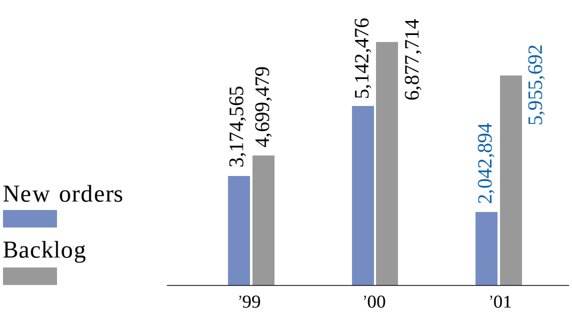

| | '99 | '00 | '01 |
|---|---|---|---|
| Overseas | 4,922.8 | 5,451.4 | 6,135.8 |
| Domestic | 1,404.5 | 1,174.7 | 1,268.4 |

This upward trend was primarily attributable to the stable backlog of Shipbuilding Division, which had secured a substantial volume of new orders in 2000. Furthermore, all business segments including the Offshore Division, which recorded robust sales growth backed by the large-scale orders from overseas clients, reported sustained growth in the year.

As of the end of December 2001, the Shipbuilding Division had accumulated backlog amounting to US$5.9 billion with 113 ships, which were equivalent to two years of workload. HHI received a total of 29 shipbuilding orders worth US$2 billion in 2001, as the company concentrated on selectively pursuing high value-added ship orders and strengthening profitability.

Reference 2

Trend of exports, new orders, and backlog during past three years. (in thousands of US$)




The operating results of 2001 are nevertheless favorably assessed since they were achieved under the impact of the global economic slump since the first half of 2001 and the dampened investment sentiment of shipowners that was significantly affected by weakness of the freight market. In 2002, HHI will strive diligently to ensure consistent earnings growth as well as quantitative expansion by securing orders for high value-added ships including LNG carriers and other industrial products on a sustained basis.

### 3. Profit and Loss in 2001 and Adjustment of Financial Statements Contents for the Prior Period

Notwithstanding the improvement in its sales performance, HHI's operating profit in 2001 declined 29.3% from the previous year to 532.3 billion won because the orders received during 1999, when shipbuilding prices hit a bottom, were recognized as sales in 2001. The company also posted a 51.9 billion won loss in recurring profit.

The deficit in recurring profit was due in large part to a loss of 102.6 billion won which resulted from the disposal of HHI's shareholdings in affiliate companies for its disaffiliation as well as the sale of or contraction of a sizable portion of its shareholdings that were not directly related to HHI's business operations. In addition, the company recorded a loss of 217.5 billion won as a result of equity method evaluation.

In particular, first, HHI sold its shares in Hyundai Corporation, Hyundai Securities and Hyundai Research Institute in line with its separation from the Hyundai Group. Second, HHI disposed of its stakes (preferred stocks) in Hyundai Motor, Korea Investment Corporation, and KDN Smartec to meet the guideline (ceiling of total amount of equity investment) of the Fair Trade Commission. Third, HHI reduced its shareholdings of Hyundai Petrochemical and Korea Industrial Development, which had been subjected to restructuring and placed under court receivership, respectively.

In addition, the company will discuss adjustment of financial statements contents for the fiscal year of 2000. Related companies including Hyundai Petrochemical and Hyundai Oil Refinery, which had adopted equity method evaluation, were late in closing their books for the fiscal year of 2000. Therefore, in accordance with articles 42-59 of the Korea's generally accepted accounting principle (Korea GAAP), HHI had recognized earnings of these companies based on the first-half year's performance in 2000 and other significant changes thereafter after gaining consent of their chief executive officers.

Upon finalization of the financial statements of these companies, HHI recognized a 255.2 billion won loss as a result of equity method evaluation (adjusted losses of these companies amounted to 314.7 billion won, of which 59.5 billion won had been previously reflected); an increase of 16.9 billion won in adjusted earning surplus; a reduction of 28.3 billion won in capital adjustments.

Korea GAAP require companies to apply regulations retroactively in regard to significant incidents, reflect any changes against earning surplus for the prior period and revise the financial statements for the previous period accordingly. Pursuant to this regulation, HHI recognized 255.2 billion won in losses as a result of equity method evaluation in 2000.

Consequently, HHI's net loss in 2000 amounted to 161.5 billion won. In addition, the investment securities on the balance sheet decreased by 266.6 billion won, of which 255.2 billion won related to equity method evaluation, an increase of 16.9 billion won from adjusted earning surplus of these companies and a reduction of 28.3 billion won in capital adjustments.

## 4. Analysis of Financial Structure

In regard to its financial structure, the company's debt-to-equity ratio rose to 132.53% in 2001 from 118.60% in 2000, while its liability-to-equity ratio increased slightly to 219.77% from 204.08%. These results were mainly related to the contraction of total shareholders' equity due to the valuation losses of investment securities and treasury stock, which were deducted from the capital adjustment account.
On the other hand, HHI's total debts in 2001 were down 33.7 billion won, as compared to the previous year, amounting to 3,754 billion won. Of special note, short-term debts declined 16.1% to 2,098.6 billion won as of the end of 2001 from 2,501 billion won in the previous year, enabling the company to noticeably improve its financial health.

In addition, the operation of treasury stocks was inevitable for the protection of shareholders' value and shoring up market share prices. Since it is feasible for treasury stocks to be converted into cash any time, the decrease in total shareholders' equity could be evaluated as temporary.

The EV/EBITDA of HHI, which was computed after excluding losses from the disposal or reduction of investment securities under the company's separation from the Hyundai Group and losses from equity method valuation at the end of 2001, stood at 5.60 times, with the average stock price being 25,632 won.

The company's EV/EBITDA was slightly lower than the industry average that was around 5.9 times, which marked a notable improvement as compared to the 17,400 won recorded at the end of 2000.

This result apparently evolved from market expectations that HHI's EBITDA, which had been at a low level due to the contraction of new orders in 1999 when shipbuilding prices were on a downswing, could recover with a rebound of shipbuilding prices. Another key factor behind the share price rally was the anticipated benefits of HHI's separation from the Hyundai Group.

Reference 3

Trend of average annualized share prices and EV/EBITDA

| Description | 2001 | 2000 | 1999 |
|---|---|---|---|
| Average annualized share price (won) | 25,632 | 24,874 | 51,989 |
| EV/EBITDA (multiple) | 5.60 | 4.89 | 6.84 |

## 5. Disaffiliation from Hyundai Group

As is widely known, HHI has been forging ahead with its separation from the Hyundai Group for the purpose of promoting the transparency and independence of its management activities. As of October 16, 2001, HHI submitted an application to the Fair Trade Commission for its formal separation from the Hyundai Group. In terms of management activities, however, HHI had been practically operating as an independent entity prior to that date. HHI had also resolved pending issues to complete its legal disaffiliation by the end of 2001.

To finalize its legal separation from the Hyundai Group, HHI was required to reduce its ownership stakes in group affiliates to less than 3% for listed companies and less than 15% for unlisted companies, under the Fair Trade Act. At the same time, HHI was also obliged to resolve all its payment guarantees for domestic affiliates.

In pursuit of these objectives, HHI sharply reduced its payment guarantees for affiliate companies and overseas subsidiaries by 662.2 billion won during 2001. Of the total, 255.3 billion won was for Hynix Semiconductor, 103.8 billion won for Hyundai Engineering & Construction, 3 billion won for Hyundai Merchant Marine, 129.5 billion won for overseas subsidiaries, 48.9 billion won for HHI's overseas affiliates, 117.5 billion won for Samho Heavy Industries, and finally 4.2 billion won for Korea Environmental Technology.

As of the end of 2001, HHI remained liable for only 1.7 billion won of payment guarantees for Hyundai Merchant Marine among domestic affiliates under the provisions of Fair Trade Act, which was subsequently resolved in early 2002. Meanwhile, Hyundai Engineering & Construction and Samho Heavy Industries are not subject to separation provisions of the Fair Trade Act since Samho, which is currently under contract management of HHI, is not an affiliate and HEC was separated from the Hyundai Group as of August 1, 2001.

Reference 4

Status of HHI's payment guarantees (as of Dec. 31, 2001)

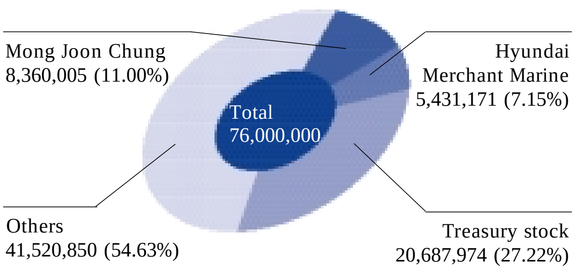
(in millions of KRW)

| Classification | End of 2000(A) | End of 2001(B) | Difference(A-B) |
|---|---|---|---|
| Hyundai Merchant Marine | 4,778 | 1,749 | -3,029 |
| Samho Heavy Industries | 942,709 | 825,255 | -117,454 |
| Hyundai Engineering & Construction | 170,060 | 66,305 | -103,755 |
| Hynix Semiconductor | 255,366 | - | -255,366 |
| HHI's Overseas Subsidiaries | 83,228 | 34,290 | -48,938 |
| Overseas Subsidiaries | 154,425 | 24,974 | -129,451 |
| Korea Environmental Technology | 39,755 | 35,569 | -4,186 |
| Total | 1,650,321 | 988,142 | -662,179 |

Second, HHI reduced its shares in listed affiliates including Hyundai Securities and Hyundai Corp. to 0% and 2.91%, respectively. Of note, on December 27-28, 2001, Hyundai Merchant Marine disposed of 4.39 million shares of HHI (equity share of 5.78%), through Korea Stock Exchange at the price of 25,000 won per share (Settlement Date: January 2, 2002), thereby clearing the biggest stumbling block to its separation from the Hyundai Group.

Reference 5

Major Shareholders of HHI (As of Dec. 31, 2001)




Although the disaffiliation process had not been completed due to the delay of disposal of the stake in Hyundai Asan, it was finally concluded by HHI's contributing of 9.8% (8,905,000 shares) out of its 19.84% stakes in Hyundai Asan to the company. Accordingly, HHI successfully completed its legal disaffiliation from the Hyundai Group with an approval from the Fair Trade Commission as of February 28, 2002.

Reference 6

Status of HHI's investment securities (as of the end of 2001)

(in millions of KRW)

| | At the end of 2001 | | | At the end of 2000 | | |
|---|---|---|---|---|---|---|
| | Equity ratio (%) | No. of shares | Amount | Equity ratio (%) | No. of shares | Amount |
| Listed companies | | | 3,312 | | | 3,670 |
| Hynix | 3.40 | 34,379,440 | 832 | 7.01 | 34,379,440 | 1,384 |
| Hyundai Corp. | 2.91 | 2,142,000 | 34 | 8.82 | 6,487,367 | 66 |
| Hyundai Securities | 0.00 | 0 | - | 3.24 | 3,469,012 | 160 |
| Hyundai Motor | 1.70 | 3,735,000 | 1,005 | 0.29 | 659,060 | 80 |
| Unlisted companies | | | 5,641 | | | 10,482 |
| Hyundai Oil Refinery | 32.21 | 78,933,628 | 2,813 | 32.21 | 78,933,628 | 3,730 |
| Hyundai Petrochemical | 0.00 | 0 | 0 | 49.87 | 53,002,134 | 3,707 |
| Thrunet | 2.18 | 1,568,000 | 79 | 2.18 | 1,568,000 | 79 |
| Partnership investment | | | 603 | | | 560 |
| Overseas Subsidiaries | | | 694 | | | 877 |
| Total | | | 10,250 | | | 15,589 |

## 6. Treasury Fund

HHI has entered into specified money trust contracts valued at a total of 705 billion won for treasury fund with five domestic banks since January 2000. As of the end of 2001, HHI held 20.69 million shares of treasury stock, which represented a 27.22% share of the total treasury stock outstanding.

The company intends to monetize its treasury fund after monitoring the market situation to assure that its stock price will remain stable.

Reference 7

Status of Treasury Fund (As of Dec. 31, 2001)

(in millions of KRW)

| | Subscription amount | No. of shares | Appraisal amount | Remarks |
|---|---|---|---|---|
| Total | 705,000 | 20,687,974 | 523,406 | * Average purchase price: 30,646 won / share<br>* Closing share price on Dec. 28: 25,300 won |

## 7. Performance Guarantee for HSMA (Hynix Semiconductor Manufacturing America Inc.)

The financial situation of Hynix semiconductor improved significantly in 2001, primarily due to the writing-off of its debt and extensive restructuring efforts led by its creditors. At the same time, negotiations with the Micron of the United States to sell the memory sectors of Hynix Semiconductor have been processing rapidly. On the other hand, its creditors accepted as collateral a wafer production factory and assets of HSMA, which are valued at some US$800 million. Thus, contingent liabilities of HHI related to its performance guarantees for the purchasing obligation on behalf of Hynix Semiconductor are not likely to be significant. In addition, there should be various alternatives for HHI to release its performance guarantee for HSMA under the condition that restructuring for Hynix Semiconductor should progress well within the first-half of 2001.

## 8. Samho Heavy Industries(SHI)

Samho Heavy Industries, which has been under HHI’s management by contract, turned in an outstanding performance in 2001. The shipyard recorded 1,002.2 billion won in sales and 111.5 billion won in operating profit, which yielded an impressive 89.8 billion won in net profit. In the year under review, Samho received new orders amounting to US$609 million, bringing its order backlog to US$2.23 billion. Encouraged by these favorable business results, Samho is targeting 1,196 billion won in revenue, along with recurring income of some 113.1 billion won in 2002.

## 9. Lawsuit for Full Recovery of HHI’s Payment to CIBC

On July 28, 2000, HHI filed a lawsuit against Hynix Semiconductor and Hyundai Securities, seeking the recovery of its foreign-currency payment on behalf of Hynix Semiconductor to CIBC (Canadian Imperial Bank of Commerce). On January 25, 2002, the court subsequently ordered the defendants to pay 70% of the amount jointly and severally that HHI had paid to CIBC. In this regard, HHI filed an appeal with the Supreme Court for reimbursement of the remaining 30%, based on a resolution of Board of Directors approved on February 8, 2002.

The foregoing is the company’s presentation of its financial status and major outstanding issues in 2001. HHI pledges to be transformed into one of the world's premier general heavy industries enterprises through its separation from the Hyundai Group, which became effective as of February 28, 2002. HHI thus looks forward to continued loyalty and support from its shareholders and clients so that the company will be able to pursue management based on enhanced transparency and value-based activities.

# Report of Independent Accountants

To the Shareholders and Board of Directors
Hyundai Heavy Industries Co., Ltd.

We have audited the accompanying balance sheet of Hyundai Heavy Industries Co., Ltd. as of December 31, 2001, and the related statements of income, appropriations of retained earnings and cash flows for the year then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the year then ended in accordance with financial accounting standards generally accepted in the Republic of Korea.

The financial statements of the Company for the year ended December 31, 2000 were audited by us and in our report dated February 17, 2001, we expressed an unqualified opinion thereon. As discussed in Note 27 to the accompanying financial statements, in the accompanying financial statements as of December 31, 2000 and for the year then ended, the Company reflected an adjustment for the valuation of its investments in equity securities, resulting in a decrease of net income by W176,639 million and a decrease in unappropriated retained earnings to W164,936 million. Accordingly, the financial statements of the Company for the year ended December 31, 2000, presented herein for comparative purposes, were restated.

As discussed in Note 16 to the accompanying financial statements, Hynix Semiconductor Inc. (HSI) sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. (HITS) to the Canadian Imperial Bank of Commerce (CIBC) on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back 13 million shares of HITS, if CIBC excised its option. In relation to this agreement, the Company was provided a written promise from HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances.

# Report of Independent Accountants

Based on above agreement, on July 24, 2000, the Company repurchased 13 million shares from CIBC at a price of US$ 220,480 thousand. The Company required HSI and HSC to honor their written promises. However, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000. On January 25, 2002, the court found in favor of the Company and awarded a partial settlement of claim in the amount of W172 billion of principal and accrued interest thereon. The Company filed an appeal to the Supreme Court claiming the remaining amount of principal and accrued interest, related to the original claim. This litigation is pending on the date of this report.

As discussed in Note 15 to the accompanying financial statements, the Company sold 11,476,380 shares of HSI to the CSFBi (Credit Suisse First Boston International) for W203,028 million in September 2000. In relation to this transaction, the Company made a call option agreement with CSFBi whereby the purchase price of the shares may be retroactively adjusted upwards if the market price of the shares exceeds US$ 15.6909 per share during the period as defined in the agreement.

As discussed in Note 15 to the accompanying financial statements, effective October 29, 1999, the Company entered into a trusteeship agreement with Samho Heavy Industries Co., Ltd. under which the Company provides management services for a fee equal to ten percent of operating income plus all actual costs incurred.

As discussed in Note 15 to the accompanying financial statements, the Company deposited with Korea Exchange Bank 34,379,440 shares of HSI, which were required as a part of HSI's restructuring by the approval of the board of directors on May 21, 2001. In addition, on June 1, 2001, the Company provided letter of attorney for Korea Exchange Bank to sell the shares subject to stock market conditions.

As discussed in Note 15 to the accompanying financial statements, the Company has provided creditors of Hyundai Petro Chemical Co., Ltd. (HPC), an investee of the Company, with a resignation note of management and shares together with a proxy document of shareholders' rights in favor of HPC. Pursuant to the resolutions of the shareholders' meeting of HPC on November 14, 2001, 52,997,148 common shares were extinguished.

As discussed in Note 25 to the accompanying financial statements, the Company has entered into certain transactions with affiliated companies within the Hyundai Group of companies during the year ended December 31, 2001. The Company's total sales to and purchases from affiliated companies amount to W279,337 million and W203,602 million, respectively. The related accounts receivable and accounts payable are W97,691 million and W21,841 million, respectively. In addition, for the year ended December 31, 2001, the Company has disposed of W4,432 million of investment securities issued by affiliated companies.

As discussed in Note 15 to the accompanying financial statements, the Company entered into agreements to construct 6 ships (Total contract amount : US$ 335,450,000) with Golden Union

# Report of Independent Accountants

Shipping Company S.A and others. Based on the agreements, the Company has entered into agreement to transfer trade accounts receivable of W208,764 million with Koram Bank and Korea Exchange Bank.

As discussed in Note 28 to the accompanying financial statements, pursuant to the decision of board of directors on February 18, 2002, the Company entered into agreement with Hyundai Asan Co., Ltd. to transfer 8,905,000 common shares without any consideration back to Hyundai Asan Co., Ltd. This was legally needed for the Company and its four affiliates to be deconsolidated from the Hyundai Group. On February 28, 2002, the Company was officially recognized to be independent from the Hyundai Group.

Without qualifying our opinion, we draw attention to Note 15 of the financial statements. The operations of the Company have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

The amounts expressed in U.S. Dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying financial statements.

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. The procedures and practices utilized to audit such financial statements may differ from those generally accepted and applied in other countries and jurisdictions. Accordingly, this report and the accompanying financial statements are not intended for use by those who are not informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea

February 8, 2002

Samil Accounting Corporation

# BALANCE SHEETS

December 31, 2001 and 2000

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars (Note 3) |
| | | | | In Thousands of |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | W 36,155,558 | $ 27,265 | W 53,058,513 | $ 40,011 |
| Short-term financial instruments | 130,760,009 | 98,605 | 197,549,848 | 148,971 |
| Marketable securities (Note 5) | 48,443,403 | 36,531 | 82,461,178 | 62,183 |
| Trade accounts receivable, less allowance for doubtful accounts of W40,305,130 thousand in 2001 and W44,796,828 thousand in 2000 and less present value discounts of W4,889,381 thousand in 2001 (Notes 6, 5 and 25) | 1,956,395,248 | 1,475,300 | 1,993,824,361 | 1,503,525 |
| Other accounts receivable, less allowance for doubtful accounts of W97,574,394 thousand in 2001 and W68,268,371 thousand in 2000 (Note 15) | 602,311,079 | 454,197 | 588,662,053 | 443,905 |
| Inventories (Note 7) | 504,538,666 | 380,468 | 479,251,864 | 361,399 |
| Advance payments | 99,834,201 | 75,284 | 121,542,313 | 91,654 |
| Accrued income | 3,103,049 | 2,340 | 8,846,168 | 6,671 |
| Other current assets | 18,959,362 | 14,297 | 28,812,739 | 21,727 |
| Total current assets | 3,400,500,575 | 2,564,287 | 3,554,009,037 | 2,680,046 |
| Property, plant and equipment, net of accumulated depreciation (Note 10) | 4,339,867,701 | 3,272,655 | 4,264,773,770 | 3,216,027 |
| Investments (Note 8) | 1,025,064,446 | 772,992 | 1,547,496,198 | 1,166,953 |
| Long-term financial instruments, less present value discounts of 6,610,047 thousand in 2001 (Note 4 and 6) | 43,020,453 | 32,441 | 117,653,856 | 88,722 |
| Intangible assets (Note 11) | 129,650,340 | 97,768 | 125,302,847 | 94,490 |
| Deferred income tax assets (Note 23) | 66,807,193 | 50,379 | 34,768,523 | 26,219 |
| Other assets (Note 9) | 52,219,636 | 39,379 | 66,255,822 | 49,963 |
| Total assets | W 9,057,130,344 | $ 6,829,901 | W 9,710,260,053 | $ 7,322,420 |

The accompanying notes are an integral part of these statements.

# BALANCE SHEETS

December 31, 2001 and 2000

| | | | In Thousands of | |
|---|---|---|---|---|
| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
| | 2001 | | 2000 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Trade accounts payable (Note 25) | W 812,993,263 | $ 613,071 | W 727,358,734 | $ 548,495 |
| Short-term borrowings (Note 12) | 1,174,323,587 | 885,547 | 1,311,037,149 | 988,641 |
| Current maturities of long-term borrowings and other long-term liabilities, less discount of W4,249,084 thousand in 2001 W7,506,326 thousand in 2000 | 924,343,684 | 697,039 | 1,182,470,934 | 891,691 |
| Advances from customers | 1,425,636,746 | 1,075,060 | 1,788,121,272 | 1,348,406 |
| Income taxes payable | 3,839,947 | 2,896 | 4,298,285 | 3,241 |
| Other current liabilities | 88,532,229 | 66,761 | 126,247,305 | 95,202 |
| Total current liabilities | 4,429,669,456 | 3,340,374 | 5,139,533,679 | 3,875,676 |
| Debentures, less discounts of W44,387,448 thousand in 2001 W36,252,826 thousand in 2000 (Note 13) | 1,392,922,552 | 1,050,390 | 1,098,747,174 | 828,555 |
| Long-term borrowings, net of current maturities (Note 13) | 262,180,949 | 197,708 | 195,168,839 | 147,175 |
| Accrued severance benefits, less transfers to National Pension Fund and others of W681,458,820 thousand in 2001 and of W637,088,078 thousand in 2000 (Note 14) | 126,260,347 | 95,212 | 70,318,960 | 53,027 |
| Other long-term liabilities | 13,729,038 | 10,353 | 13,170,304 | 9,932 |
| Total liabilities | 6,224,762,342 | 4,694,037 | 6,516,938,956 | 4,914,365 |
| Commitments and contingencies (Notes 15) | | | | |
| Shareholders' equity: | | | | |
| Capital stock (Notes 1) | | | | |
| Common stock | 380,000,000 | 286,555 | 380,000,000 | 286,555 |
| Capital surplus (Note 17) | 2,727,879,538 | 2,057,069 | 2,727,879,538 | 2,057,069 |
| Retained earnings (Note 18) | 878,081,863 | 662,154 | 961,010,779 | 724,690 |
| Capital adjustments (Notes 19) | (1,153,593,399) | (869,914) | (875,569,220) | (660,259) |
| Total shareholders' equity | 2,832,368,002 | 2,135,864 | 3,193,321,097 | 2,408,055 |
| Total liabilities and shareholders' equity | W 9,057,130,344 | $ 6,829,901 | W 9,710,260,053 | $ 7,322,420 |

The accompanying notes are an integral part of these statements.

# STATEMENTS OF OPERATIONS

For the years ended December 31, 2001 and 2000

In Thousands of

| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| Sales (Notes 20 and 25 ) | W 7,404,230,486 | $ 5,583,463 | W 6,626,143,323 | $ 4,996,715 |
| Cost of sales (Notes 20 and 25) | 6,190,606,889 | 4,668,281 | 5,346,964,274 | 4,032,097 |
| Gross profit | 1,213,623,597 | 915,182 | 1,279,179,049 | 964,618 |
| Selling and administrative expenses (Note 21) | 681,312,555 | 513,772 | 525,436,477 | 396,227 |
| Operating income | 532,311,042 | 401,410 | 753,742,572 | 568,391 |
| Non-operating income: | | | | |
| Interest and dividend income | 142,807,445 | 107,690 | 129,883,235 | 97,944 |
| Foreign exchange gain | 85,653,695 | 64,591 | 49,039,488 | 36,980 |
| Gain on foreign currency translation | 7,760,312 | 5,852 | 23,851,176 | 17,986 |
| Gain on disposition of marketable securities | 5,593,425 | 4,218 | 746 | 1 |
| Gain on disposition of investments (Notes 15) | 9,144,221 | 6,896 | 5,150,047 | 3,884 |
| Others (Note 15 and 22) | 72,432,925 | 54,621 | 31,233,444 | 23,553 |
| | 323,392,023 | 243,868 | 239,158,136 | 180,348 |
| Non-operating expenses: | | | | |
| Interest expense | 350,553,527 | 264,349 | 378,095,168 | 285,118 |
| Foreign exchange loss | 78,006,095 | 58,824 | 62,906,895 | 47,438 |
| Loss on foreign currency translation | 22,371,977 | 16,871 | 64,365,634 | 48,538 |
| Equity in investee loss (Note 8) | 217,463,418 | 163,987 | 314,728,971 | 237,334 |
| Loss on disposition of marketable securities | 2,318,163 | 1,748 | 16,129,082 | 12,163 |
| Loss on disposition of property, plant and equipment | 6,608,181 | 4,983 | 6,152,864 | 4,640 |
| Loss on disposal of investments (Notes 15 and 25) | 51,306,291 | 38,690 | 222,869,695 | 168,064 |
| Loss on impairment of investments (Note 8) | 60,411,943 | 45,556 | - | - |
| Others (Notes 13, 15 and 22) | 188,566,449 | 89,410 | 146,289,647 | 110,316 |
| | 907,606,044 | 684,418 | 1,211,537,956 | 913,611 |
| Ordinary loss | (51,902,979) | (39,140) | (218,637,248) | (164,872) |
| Income tax expense (Note 23) | 26,217,842 | 19,771 | (57,104,086) | (43,062) |
| Net loss | W (78,120,821) | $ (58,911) | W (161,533,162) | $ (121,810) |
| Loss per share(Note 24) (in Korean Won and U.S. Dollars) | W (1,376) | $ (1) | W (2,548) | $ (2) |



The accompanying notes are an integral part of these statements.

# STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

For the years ended December 31, 2001 and 2000
Dates of appropriation : March 15, 2002 for 2001 and March 16, 2001 for 2000

In Thousands of

| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| Retained earnings before appropriations: | | | | |
| Unappropriated retained earnings | | | | |
| (accumulated deficit) | | | | |
| carried over from prior year | W (164,936,392) | $ (124,377) | W 9 | $ 0.007 |
| Cumulative effect of accounting changes | | | | |
| Adoption of equity method of | | | | |
| accounting for investments (Note 8) | (6,948,113) | (5,240) | (66,466,755) | (50,122) |
| Adoption of deferred income tax | | | | |
| method (Note 23) | 2,140,019 | 1,614 | 20,471,760 | 15,438 |
| Prior period error corrections (Note 18) | - | - | (14,368,000) | (10,835) |
| Net loss | (78,120,821) | (58,910) | (161,533,162) | (121,811) |
| | (247,865,307) | (186,913) | (221,896,148) | (167,330) |
| Transfers from voluntary reserves: | 288,825,257 | 217,801 | 171,386,292 | 129,241 |
| Appropriations: | | | | |
| Legal reserve | - | - | 5,825,234 | 4,393 |
| Other statutory reserve | 2,459,940 | 1,855 | 348,956 | 263 |
| Voluntary reserve | 38,500,000 | 29,033 | 50,000,000 | 37,705 |
| Dividends | - | - | 58,252,346 | 43,928 |
| | 40,959,940 | 30,888 | 114,426,536 | 86,289 |
| Unappropriated retained earnings | | | | |
| (accumulated deficit) | | | | |
| to be carried over to the subsequent year | W 10 | $ 0.008 | W (164,936,392) | $ (124,377) |

The accompanying notes are an integral part of these statements.

# STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001 and 2000

In Thousands of

| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| Cash flows from operating activities: | | | | |
| Net loss | W (78,120,821) | $ (58,910) | W (161,533,162) | $ (121,811) |
| Items not involving operating cash flows: | | | | |
| Depreciation | 295,070,892 | 222,510 | 281,780,193 | 212,488 |
| Bad debts expense | 78,298,674 | 59,044 | 3,213,386 | 2,423 |
| Provision for severance benefits | 160,382,897 | 120,943 | 102,149,015 | 77,030 |
| Loss on disposal of marketable securities | - | - | 15,268,130 | 11,514 |
| Loss on valuation of marketable securities | 8,495,336 | 6,406 | 25,159,567 | 18,973 |
| Loss on foreign exchange translation | 22,371,977 | 16,871 | 64,365,634 | 48,538 |
| Equity in investee loss | 217,463,418 | 163,987 | 314,728,971 | 237,334 |
| Loss on disposal of investments | 51,306,291 | 38,690 | 222,869,695 | 168,064 |
| Loss on disposal of property, plant and equipment | 6,608,181 | 4,983 | 6,152,864 | 4,640 |
| Amortization of development costs | 46,698,175 | 35,215 | 36,081,185 | 27,208 |
| Gain on disposal of marketable securities | (5,593,425) | (4,218) | (746) | (1) |
| Gain on disposal of property, plant and equipment | (1,309,995) | (988) | (476,170) | (359) |
| Gain on foreign exchange translation | (7,760,312) | (5,852) | (23,851,176) | (17,986) |
| Gain on disposal of investments | (9,144,221) | (6,896) | (5,150,047) | (3,884) |
| Others | 127,420,977 | 96,087 | 81,564,881 | 61,507 |
| | 990,308,865 | 746,782 | 1,123,855,382 | 847,489 |
| Changes in operating assets and liabilities: | | | | |
| Accounts and notes receivable | 41,662,487 | 31,417 | 129,005,292 | 97,282 |
| Decrease in accrued income and other receivables | (72,987,271) | (55,039) | (355,146,110) | (267,812) |
| Advance payment and prepaid expenses | 31,167,475 | 23,503 | (59,925,375) | (45,189) |
| Inventories | (25,286,802) | (19,069) | (154,324,965) | (116,375) |
| Accounts and notes payables | 119,691,803 | 90,259 | 106,252,799 | 80,124 |
| Advanced from customers | (362,484,526) | (273,346) | 269,103,829 | 202,929 |
| Accrued income tax and deferred income tax credits | (32,497,008) | (24,506) | (232,480,237) | (175,311) |
| Payment of severance allowance | (60,070,769) | (45,299) | (42,904,916) | (32,354) |
| Others | (29,392,368) | (22,161) | 60,891,778 | 45,917 |
| | (390,196,979) | (294,241) | (279,527,905) | (210,789) |
| | 521,991,065 | 393,631 | 682,794,315 | 514,889 |

The accompanying notes are an integral part of these statements.

# STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001 and 2000

In Thousands of

| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| Cash flows from investing activities: | | | | |
| Disposal of financial instruments | W 84,123,483 | $ 63,437 | W - | $ - |
| Disposal of marketable securities | 44,706,116 | 33,712 | 87,209,142 | 65,764 |
| Decrease in long-term loans | 75,604 | 57 | 68,912,432 | 51,966 |
| Disposal of investment securities | 99,947,865 | 75,370 | 391,758,449 | 295,421 |
| Disposal of property, plant and equipment | 9,460,148 | 7,134 | 9,381,908 | 7,075 |
| Decrease in other investments | 1,004,707 | 758 | 15,426,229 | 11,633 |
| Acquisition of financial instruments | - | - | (158,936,096) | (119,852) |
| Acquisition of marketable securities | (39,258,991) | (29,605) | (116,549,132) | (87,889) |
| Acquisition of investment securities | (87,699,916) | (66,134) | (515,492,761) | (388,728) |
| Increase in long-term loans | (18,709) | (14) | - | - |
| Acquisition of property, plant and equipment | (172,296,280) | (129,927) | (139,155,300) | (104,936) |
| Acquisition of other investments | (53,267,536) | (40,169) | (85,111,693) | (64,182) |
| Increase in construction in-progress | (182,218,421) | (137,409) | (45,629,323) | (34,409) |
| Expenditures for development costs | (53,084,952) | (40,031) | (47,128,577) | (35,539) |
| | (348,526,882) | (262,821) | (535,314,722) | (403,676) |
| Cash flows from financing activities: | | | | |
| Increase in short-term borrowings | 2,193,309,627 | 1,653,955 | 1,861,601,173 | 1,403,817 |
| Issuance of debentures | 975,227,744 | 735,410 | 644,860,006 | 486,283 |
| Increase in long-term borrowings | 408,664,411 | 308,170 | 415,353,728 | 313,214 |
| Retirement of short-term borrowings | (2,341,265,128) | (1,765,527) | (1,461,428,484) | (1,102,050) |
| Retirement of current maturities of other long-term liabilities | (996,100,718) | (751,151) | (644,005,490) | (485,639) |
| Retirement of debentures | (18,862,568) | (14,224) | (20,860,952) | (15,731) |
| Retirement of long-term borrowings | (275,668,254) | (207,879) | (282,985,090) | (213,396) |
| Acquisition of treasury stocks | (77,419,906) | (58,382) | (568,576,906) | (428,759) |
| Payment of dividends | (58,252,346) | (43,928) | (76,000,000) | (57,311) |
| | (190,367,138) | (143,556) | (132,042,015) | (99,572) |
| Net increase (decrease) in cash and cash equivalents | (16,902,955) | (12,746) | 15,437,578 | 11,641 |
| Cash and cash equivalents at beginning of the year | 53,058,513 | 40,011 | 37,620,935 | 28,370 |
| Cash and cash equivalents at end of the year | W 36,155,558 | $ 27,265 | W 53,058,513 | $ 40,011 |

The accompanying notes are an integral part of these statements.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

## 1. The Company

Hyundai Heavy Industries Co., Ltd. (the Company) was incorporated in 1973, under the Commercial Code of the Republic of Korea to manufacture and sell ships, sea-structures, plants, engines and other items.

The Company listed its shares on the Korean Stock Exchange in August 1999, and a total of 76,000,000 shares (par value : W5,000, authorized : 160,000,000 shares) of common stock are issued and 55,312,026 shares of common stock are outstanding at December 31, 2001. Of the total outstanding shares, the Hyundai Group of companies including Hyundai Merchant Marine Co., Ltd. and individual majority shareholders of the Hyundai Group of companies including Mong Joon Chung, own 7.15% and 11.00%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to W400,000 million each. As of December 31, 2001, no preferred stock, convertible debentures or debentures with stock options have been issued. Under the Articles of Incorporation, the Company is authorized to issue depository receipts free from any preemptive rights by shareholders by the approval of the Board of Directors. As of December 31, 2001 no depository receipts have been issued. The Company may also raise capital without obtaining approval of shareholders by issuing stock to foreign individual investors or foreign financial institutions, issuing stock domestically under the Securities and Exchange Act, issuing stock through a general public subscription or by granting stock options to employees.

In addition, under the Articles of Incorporation, the Company is authorized to grant stock options to the Company's employees and directors, up to 15% of issued common stock. As of December 31, 2001, no stock options have been granted to the Company's employees and directors.

## 2. Summary of Significant Accounting Polices

The significant accounting policies followed by the Company in the preparation of its financial statements in accordance with Financial Accounting Standards of the Republic of Korea are summarized as follows :

### Basis of Financial Statement Presentation

The official accounting records of the Company, on which the Korean language financial statements are based, are maintained in Korean Won in accordance with the laws and regulations of the Republic of Korea.

The accompanying financial statements have been extracted from the Company's Korean language financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korea financial statement practices. Certain supplementary information included in the Korean language statutory financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or cash flows is not presented in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the Republic of Korea requires management to make estimates and assumptions that affect the amount reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

### Revenue Recognition

Revenues from long-term contracts, including shipbuilding contracts, are recognized using the percentage-of-completion method, measured by the units of work performed. Revenues from other sales are recognized upon delivery of goods.

### Marketable Securities

Marketable securities are stated at fair value.

### Valuation of Assets at Present Value

As part of the composition proceedings, the repayment terms of certain assets and liabilities of the Company were restructured and extended. These assets and liabilities were then revalued at their net present value using the Company's effective interest rate. The difference between the pre-composition carrying amount and the net present value of the restructured repayment terms has been reflected in the accompanying financial statements as bad debt expense. The discounts will be amortized over the lives of the respective assets using the effective interest method. Amortization will be recorded as interest income.

### Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts receivable based on the aggregate estimated collectibility of the receivables.

### Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the moving average method, except for materials in transit which are recorded using the specific identification method.

### Investments

All investments in equity and debt securities are initially carried at cost, including incidental expenses. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase. The following paragraphs describe the subsequent accounting for securities by the type of security.

Investments i n marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of shareholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the Company exerts significant control or influence (controlled investees) are recorded using the equity method of accounting. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over 5 years using the straight-line method. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in debt securities which the Company has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost). Declines in the fair value of debt securities which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

### Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are recorded at cost, except for certain assets subject to upward revaluation in accordance with the Korean Asset Revaluation Law.

Expenditures which enhance the value or extend the useful life of the related assets are capitalized, whereas expenditures for routine maintenance and repairs are expensed as incurred.

Interest cost is capitalized in connection with the purchase or construction of major property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life (see Note 10).

Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets as described below:

| | Estimated Useful Lives (Years) |
|---|---|
| Buildings and structures | 20 - 40 |
| Machinery and equipment | 10 |
| Ships | 12 |
| Vehicles | 5 |
| Tools, furniture and fixture | 5 |

### Lease Transactions

The Company accounts for lease transactions as either capital leases or operation leases, depending on the terms of the underlying lease agreements.

### Capital leases

Assets leased under capital lease are recorded at cost, included as property, plant and equipment, and depreciated using the straight-line method over their estimated useful lives.

The aggregate lease payments are recorded as a capital lease obligation, net of accrued interest as determined by the excess of lease payments over the cost of the leased asset. Accrued interest is charged to expense over the lease terms using the effective interest method.

### Operating leases

Operating lease payments are recognized as current expenses on an accrual basis over the term of the lease.

### Intangible Assets

Intangible assets such as development costs and usage rights are stated at cost less accumulated amortization, which is computed by the straight-line method based on the estimated service lives of the intangibles assets as described below:

| | Estimated Service Lives (Years) |
|---|---|
| Development costs | 5 |
| Usage right for donated properties | 20 - 40 |

Development costs are incurred in respect of particular development activities and directly related to new products or technology. The Company's management believes that the value of development costs will be recovered through their future economic benefits.

### Discounts on Debentures

Discounts on debentures are amortized over the redemption period of the debenture using the effective interest rate method. Amortization of discounts is recognized as interest expense on the debenture.

### Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates prevailing at the balance sheet date (in case of U.S. Dollars for the year ended December 31, 2001, US$1= W1,326.10). Resulting exchange losses and gains are recognized currently.

Assets and liabilities denominated in foreign currencies as of December 31, 2001 are as follows:

| | | | In thousands of |
|---|---|---|---|
| Account | Foreign Currencies | | Won |
| 1) Assets | | | |
| Trade accounts receivable | US$ | 79,645 | W 105,617,401 |
| | EUR | 18,771 | 22,010,395 |
| | Others | | 16,279,683 |
| Financial instruments & other assets | US$ | 26,053 | 34,549,057 |
| | INR | 157,920 | 4,345,956 |
| | Others | | 1,997,824 |
| | | | W 184,800,316 |
| 2) Liabilities | | | |
| Short-term borrowings | US$ | 414,156 | W 549,212,626 |
| Long-term borrowings and others | US$ | 256,130 | 339,654,601 |
| | Others | | 13,373,677 |
| | | | W 902,240,904 |

### Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their services with the Company, based on their length of service and rate of payment at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees were to terminate their employment as of the balance sheet date. As of December 31, 2001, total accrued severance benefits amount to W807,719 million. Accrued severance benefits are funded approximately 76.1% as of December 31, 2001 through certain insurance plans with Samsung Life Insurance Co., Ltd. and other insurance companies. The unused portion of insurance premium deposits for these insurance plans is deducted from accrued severance benefits.

In accordance with the Korean National Pension Act, a certain portion of accrued severance benefits is contributed to the National Pension Fund and deducted from accrued severance benefits. The contributed amount shall be refunded from the National Pension Fund to employees on their retirement.

### Deferred Income Taxes

The Company applies the deferred method of accounting for income taxes. Under this method, the future tax effects of temporary differences between the financial accounting and tax bases of assets and liabilities are reflected in the balance sheet as of December 31, 2001.

## 3. United States Dollar Amounts

The Company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Won amounts are expressed in U.S. Dollars at the rate of W1,326.1:US$1, the rate in effect on December 31, 2001. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korean or the United States and should not be construed as a representation that the Korean Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 2000 U.S. Dollar amounts, which were previously expressed at W1,259.7:US$1, the rate prevailing on December 31, 2000, have been restated to reflect the exchange rate in effect on December 31, 2001.

## 4. Restricted Financial Instruments

As of December 31, 2001, the long-term financial instruments of W6,631 million are pledged as collateral for certain short-term and long-term borrowings (see Notes 12 and 13).

## 5. Marketable Securities

Marketable securities at December 31, 2001 and 2000 comprise the following:

| | Annual Interest Rates(%) | Millions of Won December 31, 2001 | December 31, 2000 |
|---|---|---|---|
| Beneficiary certificates | Floating rate | W 12,279 | W 52,887 |
| Corporate debentures | Floating rate | 29,000 | 29,000 |
| Bonds in foreign currencies | Floating rate | 5,970 | - |
| Government and municipal bonds | Floating rate | 1,194 | 574 |
| | | W 48,443 | W 82,461 |

## 6. Trade Notes Receivable and Long-Term Financial Instruments

Pursuant to the resolution of the creditors' committee of the Hyundai Petro Chemical Co., Ltd. on October 17, 2001, the repayment terms of certain assets of the Company were restructured and extended. Therefore, these assets were revalued at their net present value using the Company's effective interest rate as follows:

| | Millions of Won Nominal value | Present value discount | Book value |
|---|---|---|---|
| Trade note receivable | W 85,000 | W 4,890 | W 80,110 |
| Long-term financial instrument | 43,000 | 6,610 | 36,390 |
| | W 128,000 | W 11,500 | W 116,500 |

## 7. Inventories

Inventories at December 31, 2001 and 2000 comprise the following:

| | | Millions of Won |
|---|---|---|
| | December 31, 2001 | December 31, 2000 |
| Finished products and merchandise | W 132,123 | W 76,712 |
| Work-in-process | 33,010 | 36,472 |
| Materials and supplies | 188,355 | 183,486 |
| Materials in transit | 151,051 | 182,582 |
| | W 504,539 | W 479,252 |

## 8. Investments

Investments at December 31, 2001 and 2000 comprise the following (Unit : Millions of Korean Won):

| | December 31, 2001 | | | | December 31, 2000 |
|---|---|---|---|---|---|
| | Number of Shares | Equity Share(%) | Acquisition Cost | Recorded Book value | Recorded Book value |
| (A) Listed stocks : | | | | | |
| Hyundai Motors Co., Ltd. | | | | | |
| common stock | 3,735,000 | 1.70 | W 59,078 | W 100,472 | W 7,975 |
| preferred stock | - | - | - | - | 703 |
| Preferred stock(2B) | - | - | - | - | 2,006 |
| Hynix Semiconductor Inc. | 34,379,440 | 3.40 | 592,800 | 83,198 | 138,377 |
| Chohung Bank | 12,089,238 | 1.78 | 118,709 | 50,049 | 20,189 |
| Tong Yang Investment Bank(*) | 3,757,865 | 4.43 | 99,828 | 14,806 | 35,443 |
| Hyundai Corporation | 2,142,000 | 2.91 | 11,227 | 3,406 | 6,617 |
| Hyundai Elevator Co., Ltd. | 120,320 | 2.14 | 1,632 | 1,113 | 722 |
| Kia Motors Co., Ltd. | 88,245 | 0.02 | 2,682 | 782 | 627 |
| Hyundai Securities Co., Ltd. | - | - | - | - | 16,027 |
| Others | | | 785 | 785 | 10,570 |
| | | | 886,741 | 254,611 | 239,256 |

| | December 31, 2001 | | | | December 31, 2000 |
|---|---|---|---|---|---|
| | Number of Shares | Equity Share(%) | Acquisition Cost | Recorded Book value | Recorded Book value |
| **(B) Unlisted stocks :** | | | | | |
| Hyundai Asan Co., Ltd. | 17,854,840 | 19.84 | W 89,274 | W 45,124 | W 88,354 |
| Hynix Semiconductor America Inc. | 85,398 | 4.30 | 34,526 | 17,524 | 34,526 |
| Daehan Oil Pipeline Corporation | 1,438,554 | 6.39 | 14,512 | 14,512 | 14,512 |
| Yunhap Machivery Finance Co., Ltd. | 2,000,000 | 9.99 | 10,000 | 10,000 | 10,000 |
| Thrunet Co., Ltd. | 1,568,000 | 2.18 | 7,948 | 7,948 | 7,948 |
| Others | | | 26,529 | 26,529 | 30,772 |
| | | | 182,789 | 121,637 | 186,112 |
| **(C) Investments in affiliated companies :** | | | | | |
| (Equity method) - | | | | | |
| Hyundai Oil Refinery Co., Ltd. | 78,933,628 | 32.21 | W 432,861 | W 281,274 | W 375,234 |
| Hyundai Finance & Factoring Corp. | 12,350,000 | 67.49 | 78,198 | 80,761 | 76,376 |
| Hyundai Mipo Dockyard Co., Ltd. | 4,040,936 | 27.68 | 22,687 | 76,609 | 90,065 |
| Inchon Energy | 3,284,884 | 31.00 | 16,424 | 12,401 | 15,122 |
| Hyundai Heavy Industries Europe N.V. | 1,049 | 100.00 | 30,948 | 5,532 | - |
| Hyundai Elporom Trafo AD | 4,920,089 | 97.78 | 5,650 | 4,018 | 2,315 |
| Hyundai Donganh Steel | - | 55.00 | 1,231 | 707 | 713 |
| H.C.E. USA | 23,900,000 | 100.00 | 26,713 | - | - |
| Vladivostok Business Center Co., Ltd. | - | 40.00 | 3,871 | - | - |
| MEISHA. Inc. | - | - | - | - | 27,421 |
| Hyundai Petrochemical Co., Ltd. | - | - | - | - | 370,262 |
| Others | | | 74,864 | 78,612 | 74,923 |
| | | | 693,447 | 539,914 | 1,032,431 |

| | December 31, 2001 | | | | December 31, 2000 |
|---|---|---|---|---|---|
| | Number of Shares | Equity Share(%) | Acquisition Cost | Recorded Book value | Recorded Book value |
| (D) Investments in affiliated companies : | | | | | |
| Hyundai Vinashin Shipyard | - | 10.00 | W 2,543 | W 2,543 | W 2,543 |
| Hyundai S/V INDONESIA. etc. | - | - | 306 | 26 | 26 |
| | | | 2,849 | 2,569 | 2,569 |
| (E) Other investments | | | | | |
| Investments in capital | 18,129 | - | 4,928 | 4,928 | 2,928 |
| | Sub Total | | W 1,770,754 | W 923,659 | W 1,463,296 |
| (F) Investments in debt-securities | | | | | |
| Hyundai Petrochemical Co., Ltd. debentures | | | 101,405 | 101,450 | - |
| Hyundai Petrochemical Co., Ltd. convertible bonds. | | | - | - | 84,200 |
| | | | 101,405 | 101,405 | 84,200 |
| | Total | | W 1,872,159 | W 1,025,064 | W 1,547,496 |

The Company's investment in Hyundai Ulsan Investment Bank, previously accounted for using the equity method, was merged into Tong Yang Investment Bank on March 31, 2001. Accordingly, the Company was reclassified to marketable investment-securities and carried at fair value.

Investments in unlisted companies are stated at cost. Investments in listed companies are stated at market value. The resulting unrealized valuation losses of W575,620 million are recorded as a separate component of shareholders' equity ("capital adjustment").

The net asset value of the investments in Hynix Semiconductor America Inc. and Hyundai Asan Co.,Ltd., has declined significantly and is not expected to recover. Accordingly, the difference between acquisition cost and net realizable value of these investments amounting to W60,412 million has been written-off.

The Company has adopted the equity method of accounting for all investments in which the Company has significant influence over the operations of the investee. The effect of the equity method of accounting on the ending balance of capital adjustments was W68,023 million as of December 31, 2001 including a W27,439 increase of capital adjustments for the year then ended. Also, loss on valuation of equity securities of W217,463 million is recorded as non-operating expense.

On December 31, 2001, due to accumulated deficit of H.C.E USA, Vladivostok Business Center Co.,Ltd. and Hyundai Furniture Industries, the Company valued the book value of investments in these companies as zero and ceased to apply the equity method of accounting.

Pursuant to the resolutions of the creditors' committee of Hyundai Petro Chemical Co., Ltd. the convertible bonds were converted to private corporate debentures. In relation to the conversion, the Company stated these investments in debt securities at cost because the Company has the intent and ability to hold investments to maturity.

903,300 shares and 1,600,000 shares of Hyundai Motors Co., Ltd. and Hyundai Mipo Dockyard Co., Ltd., respectively, are pledged as collateral for various bank loans at December 31, 2001 (see Notes 12 and 13). In connection with the above mortgage, 1,494,816 shares of Hyundai Motors Co., Ltd. are pledged as collateral for the indemnity to Chohung Bank (see Note 16).

34,379,440 shares of Hynix Semiconductor Inc. were deposited with Korea Exchange Bank for its restructuring purpose (see Note 15).

Pursuant to the resolutions of the shareholder's meeting of the Hyundai Petro Chemical Co., Ltd, 52,997,148 shares thereof were extinguished and the Company recognized losses of W28,077 million as an expense in 2001 (see Note 15).

## 9. Long-Term Notes Receivable

The long-term notes receivable in foreign currency arise in connection with the export sale of ships. The payment of these notes is guaranteed by the corresponding bank of the note issuers.

The maturities of notes receivable outstanding at December 31, 2001 are as follows:

| | Thousands of Won |
|---|---|
| 2002. 1. 1 - 2002. 12. 31 | W 483,052 |
| 2003. 1. 1 - 2003. 12. 31 | 512,694 |
| 2004. 1. 1 - 2004. 12. 31 | 544,156 |
| 2005. 1. 1 - 2005. 12. 31 | 577,545 |
| 2006. 1. 1 - 2006. 12. 31 | 612,986 |
| Thereafter | 6,274,476 |
| Less : current portion | (483,052) |
| | W 8,521,857 |

## 10. Property, Plant and Equipment

Property, plant and equipment at December 31, 2001 and 2000 comprise the following:

| | Millions of Won | |
|---|---|---|
| | December 31, 2001 | December 31, 2000 |
| Buildings and structures | W 1,936,126 | W 1,857,799 |
| Machinery and equipment | 1,550,222 | 1,444,299 |
| Ships | 84,429 | 86,455 |
| Vehicles | 18,804 | 16,458 |
| Tools, furniture and fixture | 739,436 | 704,170 |
| | 4,329,017 | 4,109,181 |
| Less: accumulated depreciation | (1,427,284) | (1,182,149) |
| Land | 1,178,648 | 1,176,260 |
| Construction in progress | 259,486 | 161,481 |
| | W 4,339,867 | W 4,264,773 |

A substantial portion of buildings, machinery and equipment were insured against fire and other casualty losses up to approximately W1,487,693 million at December 31, 2001. The Company maintains insurance coverage against fire and other casualty losses of up to W1,327,789 million for ships and sea-structures under construction at December 31, 2001.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to W1,805,847 million at December 31, 2001. The Company also maintains insurance on cargo against damage and claims losses of up to W1,596,693 million for products being exported and imported.

A substantial portion of property, plant and equipment is pledged as collateral for various bank loans up to W430,725 million at December 31, 2001 (see Notes 12 and 13).

The Company capitalized W14,893 million of interest costs as part of the cost of construction for the year ended December 31, 2001.

## 11. Development Costs

Development costs included in intangible assets at December 31, 2001 and 2000 are summarized as follows:

Millions of Won

| | December 31, 2001 | December 31, 2000 |
|---|---|---|
| Beginning balance | W 88,853 | W 77,806 |
| Capitalized | 53,085 | 47,129 |
| Amortized | (46,698) | (36,081) |
| Ending balance | W 95,240 | W 88,854 |

Ordinary development expenses incurred in 2001 and 2000 are W27,037 million and W21,578 million, respectively.

## 12. Short-term Borrowings

Short-term borrowings at December 31, 2001 and 2000 comprise the following:

Millions of Won

| | Annual Interest Rate(%) | December 31, 2001 | December 31, 2000 |
|---|---|---|---|
| General term loans | 8.2 ~ 9.95 | W - | W 177,140 |
| Notes discounted by merchant banks | 5.12 ~ 8.95 | 98,200 | 330,846 |
| Foreign trade financing | JPY L + 0.4 ~ 0.7 | 444,114 | 358,521 |
| | US$ L + 0.4 ~ 0.7 | | |
| Predelivery financing | Prime rate + 0.2~0.8 | 589,589 | 421,529 |
| | US$ L + 1.48~1.98 | | |
| Others | | 42,420 | 23,001 |
| | | W 1,174,323 | W 1,311,037 |

## 13. Long-term Debt

Long-term debts at December 31, 2001 and 2000 comprise the following:

| | | Millions of Won | |
|---|---|---|---|
| | Annual Interest Rate(%) | December 31, 2001 | December 31, 2000 |
| Guaranteed debentures | 20 | W - | W 92,960 |
| Non-guaranteed debentures | 5.0 - 21.7 | 2,072,310 | 2,010,000 |
| Won currency loans | (A) | 388,181 | 205,413 |
| Foreign currency loans | (B) | 167,593 | 211,773 |
| | | 2,628,084 | 2,520,146 |
| Less : discounts | | (44,387) | (36,253) |
| Less : current maturities | | (928,593) | (1,189,977) |
| | | W 1,655,104 | W 1,293,916 |

Debentures comprise W1,760,000 million of publicly issued debentures and W312,310 million of unlisted private subscription.

The Company repurchased and retired treasury bonds amounting to W110,000 million during the year. The resulting loss of W2,318 million is recorded as a loss from redemption of bond.

Certain short-term financial instruments, investments and property, plant and equipment are pledged as collateral for the above loans (see Notes 4, 7 and 9). In addition, repayment of certain long-term debt is guaranteed by various financial institutions and/or certain affiliated companies.

(A) Won currency loans at December 31, 2001 and 2000 comprise the following:

| | | Millions of Won | |
|---|---|---|---|
| | Annual Interest Rate(%) | December 31, 2001 | December 31, 2000 |
| Predelivery financing from Export-Import Bank of Korea | prime rate + 0.2 ~ 0.8 | W 379,686 | W 80,238 |
| Facility loans from Seoul Bank and other banks | yield rate + 0.2 | 8,200 | 14,800 |
| Others | 3.0 ~ 9.0 | 295 | 110,375 |
| | | 388,181 | 205,413 |
| Less : current maturities | | (216,494) | (61,319) |
| | | W 171,687 | W 144,094 |

(B) Foreign currency loans at December 31, 2001 and 2000 comprise the following:

| | | Millions of Won | |
|---|---|---|---|
| | Annual Interest Rate(%) | June 30, 2001 | June 30, 2000 |
| Predelivery financing from | | | |
| Export-Import Bank of Korea | Libor + 1.48 ~ 1.98 | W 149,729 | W 139,121 |
| Loans for facility resources | | | |
| from Citi Bank and other banks | 6ML + 0.675 ~ 3ML + 0.75 | 17,864 | 37,381 |
| Off-shore financing | | - | 35,212 |
| | | 167,593 | 211,774 |
| U.S. Dollar equivalent (in thousand) | | (US$ 126,380) | (US$ 184,293) |
| Less : current maturities | | (77,099) | (160,699) |
| | | W 90,494 | W 51,075 |

The maturities of long-term debt outstanding at December 31, 2001, before discounts, are as follows:

| | Millions of Won | | | |
|---|---|---|---|---|
| | Debentures (par value) | Won Currency Loans | Foreign Currency Loans | Total |
| 2002. 1. 1 ~ 2002. 12. 31 | W 635,000 | W 216,494 | W 77,099 | W 928,593 |
| 2003. 1. 1 ~ 2003. 12. 31 | 857,310 | 133,040 | 74,160 | 1,064,510 |
| 2004. 1. 1 ~ 2004. 12. 31 | 580,000 | 38,647 | 14,870 | 633,518 |
| 2005. 1. 1 ~ 2005. 12. 31 | - | - | 488 | 488 |
| Thereafter | - | - | 976 | 976 |
| | W 2,072,310 | W 388,181 | W 167,593 | W 2,628,085 |

## 14. Accrued Severance Benefits

Accrued severance benefits at December 31, 2001 and 2000 are as follows:

| | Millions of Won | |
|---|---|---|
| | 2001 | 2000 |
| Beginning balance | W 707,407 | W 648,163 |
| Severance payments | (60,071) | (42,905) |
| Provisions | 160,383 | 102,149 |
| | 807,719 | 707,407 |
| Less : Group severance insurance | (614,942) | (566,207) |
| Cumulative contribution to the national pension fund | (66,516) | (70,881) |
| | W 126,261 | W 70,319 |

## 15. Commitments and Contingencies

The Company maintains bank overdraft lines totaling W238,000 million with 9 banks.

At December 31, 2001, the Company has entered into agreements with various banks for the guarantees of letters of credit and usance related to the Company's exports and imports, totaling US$1,395,133 thousand. Also, at December 31, 2001, the Company has entered into agreement with various banks for the Company's import transaction in terms of documents against acceptance, totaling US$ 105,749 thousand.

In order to secure the guarantees provided by banks for borrowings and performance of construction contracts entered into by the Company, the Company has provided 34 blank checks and notes and 75 checks and notes in the total amount of W209,132 million as of December 31, 2001. In addition, the Company will retire 23 notes and 14 checks which were issued previously under permission of the courts.

The outstanding balance of the accounts receivables sold to financial institutions with recourse is W103,806 million at December 31, 2001.

At December 31, 2001, the Company has accounts receivable totaling W44,643 million which were issued by Hanbo Steel Co., Ltd. and Hanbo Co., Ltd. These companies are in the process of business reorganization by the courts after declaring bankruptcy in January 1997. In connection with these accounts receivable, the Company has won a lawsuit against Hanbo Steel Co., Ltd. for W52,674 million of settlement of claim including W50,454 million of construction charge and accrued interest thereon.

At December 31, 2001, the Company is contingently liable for loan guarantees and performance of construction contracts of affiliated companies within the Hyundai Group of companies and Samho Heavy Industries Co., Ltd., amounting to W604,717 million and US$289,137 thousand. The Company has provided buyers with contract performance guarantees related to the construction of ships amounting to US$2,647,139 thousand. The Company reported on performance guarantees of 18 ships (Contract amount : US$ 720,848 thousand), which are scheduled to be constructed by Samho Heavy Industries Co., Ltd. to Export-Import Bank.

In connection with Company's loans and contract performance guarantees, the Company has been guaranteed W1,058,399 million and US$2,888,413 thousand by various banking facilities.

The Company sold 11,476,380 shares of Hynix Semiconductor Inc.(HSI) to the CSFBi (Credit Suisse First Boston International) for W203,028 million in September 2000. In relation to this transaction, the Company made a call option agreement with CSFBi whereby the purchase price of the shares may be retroactively adjusted upwards if the market price of the shares exceeds USD 15.6909 per share during the period as defined in the agreement.

In relation to the call option agreement with CSFBi, the option premium of US$ 12,245 thousand is valued at fair value and the Company recognized valuation losses of W1,595 million as an expense during 2001.

At December 31, 2001, the Company has entered into 24 forward foreign exchange contracts with banks, including Citi Bank, as follows:

| Bought | | Sold | | Exchange Rate |
| --- | --- | --- | --- | --- |
| Currency | Contract Amount | Currency | Contract Amount | (US$ basis) |
| EUR | 75,160 | US$ | 65,727 | 0.8745 |
| SEK | 6,400,000 | US$ | 674,039 | 9.50 |
| CHF | 1,333,800 | US$ | 822,825 | 1.6210 |
| JPY | 216,000,000 | US$ | 1,809,803 | 119.35 |
| SEK | 1,250,000 | US$ | 131,718 | 9.49 |
| EUR | 1,649,600 | KRW | 1,939,748,144 | 1,175.89 |
| EUR | 801,920 | KRW | 904,405,579 | 1,127.80 |
| EUR | 400,960 | KRW | 452,363,173 | 1,128.20 |
| EUR | 4,520,000 | US$ | 4,193,656 | 0.9278 |
| EUR | 2,061,000 | KRW | 2,431,753,290 | 1,179.89 |
| JPY | 89,910,000 | US$ | 757,583 | 118.68 |
| SEK | 6,400,000 | US$ | 676,175 | 9.465 |
| EUR | 2,464,000 | KRW | 2,911,043,520 | 1,181.43 |
| SEK | 1,250,000 | US$ | 132,205 | 9.455 |
| EUR | 4,520,000 | US$ | 4,204,504 | 0.9302 |
| SEK | 6,237,000 | US$ | 586,460 | 10.635 |
| EUR | 1,461,015 | US$ | 1,343,257 | 0.9194 |
| EUR | 2,092,500 | US$ | 1,893,085 | 0.9047 |
| EUR | 75,160 | US$ | 66,021 | 0.8784 |
| EUR | 2,047,500 | US$ | 1,853,397 | 0.9052 |
| EUR | 75,160 | US$ | 67,343 | 0.896 |
| EUR | 279,000 | US$ | 252,858 | 0.9063 |
| EUR | 75,160 | US$ | 67,456 | 0.8975 |
| EUR | 273,000 | US$ | 247,666 | 0.9072 |

The Company has made swap contracts with Korea Exchange Bank and other 3 banks to avoid the risk of changes in foreign exchange rates and, recognizes income and loss by W75 million and W8,571 million, respectively, from swap contracts.

The Company has entered into six various operating lease agreements with Hanareum Merchant Banking Co., Ltd. and other 2 banking facilities. Those agreements can be extended by a mutual agreement prior to the expiration of the relevant contract.

Future anticipated lease payments under operating lease agreements as of December 31, 2001 are as follows:

Millions of Won, Thousands of U.S. Dollar

| | Won Currency | Foreign Currency | Total(Won Currency) |
|---|---|---|---|
| 2002. 1. 1 ~ 2002. 12 .31 | W 39,605,492 | US$ 9,723,624 | W 52,499,990 |
| 2003. 1. 1 ~ 2003. 12. 31 | 39,605,492 | 10,064,757 | 52,952,366 |
| 2004. 1. 1 ~ 2004. 12. 31 | 39,605,492 | 10,431,337 | 53,438,488 |
| 2005. 1. 1 ~ 2005. 12. 31 | 39,605,492 | 10,825,262 | 53,960,872 |
| 2006. 1. 1 ~ 2006. 12. 31 | 6,143,781 | 6,569,717 | 14,855,883 |
| | W 164,565,749 | US$ 47,614,697 | W 227,707,599 |

The Company has entered into a Group Support Agreement with Hynix Semiconductor Manufacturing America Inc.(HSMA), an overseas subsidiary of HSA, together with two other companies within the Hyundai Group of companies, and provided this agreement as collateral for long-term borrowings of US$ 1,148,485 thousand of HSMA. In addition, HSI has entered into a purchase agreement (off-take agreement) with HSMA as collateral for the long-term debt.

The Company has the rights to acquire certain stocks held by the stockholders of Samho Heavy Industries Co., Ltd. after a certain period of time. Effective October 29, 1999, the Company has entered into a trusteeship agreement with Samho Heavy Industries Co., Ltd., under which the Company provides management services for a fee equal to ten percent of operating income plus all actual costs incurred. In this regard, the Company has provided guarantees of indebtedness of Samho Heavy Industries Co., Ltd. approximating W921 billion, and is contingently liable therefor. Also, the Company has entered into 31 various joint ship contracts (earnest money on contract : US$ 1,512 million) for Samho Heavy Industry Co., Ltd. to provide guarantees of ship completion of Samho Heavy Industries Co., Ltd. In relation to the acquisition rights described above, the exercise price is par value if the par value does not exceed net asset value per share. Otherwise, a premium is added to the exercise price in the amount of 70% of the excess of net asset value over par value.

The Company entered into several agreements to dispose of common shares of Aluminum of Korea jointly with Alcan Taihan Aluminum Ltd. and certain affiliated companies of Hyundai Group. Under the agreements, the Company and 8 affiliated companies of Hyundai Group are contingently liable for indemnification for additional losses. As of December 31, 2001, conditions requiring the indemnification for additional loss have not occurred.

The Company has provided Korea Exchange Bank with 34,379,440 shares of HSI for the restructuring and separation of Hynix Semiconductor Inc. by the approval of the board of directors on May 21, and June 1, 2001, and has provided a stock sale contract, a release of the right to vote and manage and a letter of attorney to sell the stock according to the stock market condition hereafter.

The Company has provided creditors of Hyundai Petro Chemical Co., Ltd.(HPC), an investee, with a resignation note of management and shares as well as a proxy document of shareholders' rights for the purpose of normalization of HPC. Pursuant to the resolutions of the shareholders' meeting of HPC on November 14, 2001, 52,997,148 shares were extinguished.

The Company has entered into agreement to transfer trade accounts receivable of W208,764 million, which were generated by agreements to construct 6 ships (Total contract amount : USD 335,450,000) with Golden Union Shipping Company S.A and others with Koram Bank and Korea Exchange Bank.

| Shipowner | Contract amount | Receivables to be transferred |
|---|---|---|
| Sovcom Flod(Russia) | US$ 44,500,000 | W 26,405,792 |
| Golden Union Shipping Company S.A(Greece) | 37,750,000 | 32,991,550 |
| MSC Mediterranean Shipping Company S.A(Switzerland) | 63,050,000 | 51,396,785 |
| MSC Mediterranean Shipping Company S.A(Switzerland) | 63,050,000 | 36,991,600 |
| Hapag-Lloyd Aktiengesellschaft(Germany) | 72,900,000 | 47,736,973 |
| Norddeutsche Reederei-Beteiligungsgesellschaft MBH&Co. | 54,200,000 | 13,241,830 |
| | US$ 335,450,000 | W 208,764,530 |

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy is currently experiencing additional difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidations and significant uncertainty exists with regard to the availability of short-term financing during the coming year. The Company may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

### 16. Lawsuit Events

A fine in the amount of W21,377 million has been imposed on the Company as a result of an investigation of the Korea Fair Trade Commission for unfair transactions with affiliated companies. However, the Company has filed an administrative appeal and the case is pending in the Supreme Court and the High Court as of December 31, 2001. In addition, the Company has been brought into 7 legal actions amounting to W405 million for industrial disaster by the employees of the Company, all of which are pending at December 31, 2001.

Hynix Semiconductor Inc. (HSI) sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. (HITS) to the Canadian Imperial Bank of Commerce (CIBC) on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back 13 million shares of HITS, if CIBC excised its option. In relation to this agreement, the Company was provided a written promise from HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances.

Based on above agreement, on July 24, 2000, the Company repurchased 13 million shares from CIBC at a price of US$ 220,480 thousand. The Company required HSI and HSC to honor their written promises. However, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000. On January 25, 2002, the Company won this litigation for the settlement of claim including W172 billion of principal and accrued interest thereon. But the Company didn't accept the court's decision and filed an appeal to the Supreme Court for claiming the whole amount of the principal and accrued interest, and which is pending on the date of this report.

Pursuant to the restructuring of banking facilities, Chohung Bank, Kangwon Bank and Hyundai Investment Bank (HIB) were merged in September 1999. A special tax for rural development of W47.3 billion was imposed on the liquidation income of HIB to the Company.

The Company instituted an administrative litigation to cancel the tax to Seoul Administrative Court through Chohung Bank. W17.4 billion of W47.3 billion imposed on litigation income of HIB was reduced as a result of the sentence of the first trial on July 27,

2001. Also the Company is planning to appeal to the Supreme Court for an entire reduction of the special tax. According to the merger agreement between Chohung Bank and Kangwon Bank in September 1999, shareholders of Kangwon Bank, including the Company, will be responsible for the taxes, if any, on behalf of Chohung Bank after the merger. Chohung Bank instituted a lawsuit to recover the prepaid taxes from the Company and other shareholders of Kangwon Bank. The Company pledged 1,494,816 shares of Hyundai Motors Co., Ltd. to Chohung Bank to be responsible for the tax as a shareholder of Kangwon Bank.

## 17. Capital Surplus

Capital surplus as of December 31, 2001 comprises the following:

| | | Millions of Won |
|---|---|---|
| Paid in capital in excess of par value | W | 843,324 |
| Gain on business combination | | 21,830 |
| Asset revaluation surplus | | 1,862,725 |
| | W | 2,727,879 |

Capital surplus is only available for the reduction of accumulated deficit or transfer to capital stock.

## 18. Retained Earnings

Retained earnings at December 31, 2001 comprise the following:

| | | Millions of Won |
|---|---|---|
| Appropriated | | |
| Legal reserve (A) | W | 121,350 |
| Reserve for business rationalization. (B) | | 92,756 |
| Reserve for overseas market development (C) | | 16,667 |
| Reserve for export losses (C) | | 10,667 |
| Reserve for technology development (C) | | 398,633 |
| Voluntary reserve | | 238,009 |
| | W | 878,082 |

(A) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of annual cash dividends for each accounting period until the reserve equals 50% of capital. This reserve is not available for the payment of cash dividends but may be transferred to common stock or used to offset accumulated deficit, if any, through a suitable resolution of shareholders.

(B) The Korean Tax exemption and Reduction Control Law requires the Company to appropriate, as a reserve for business rationalization, an amount equal to the tax reduction arising from deductions from taxable income claimed in respect of investments in major facilities. This reserve is not available for the payment of cash dividends. However, subject to the approval of shareholders, it may be transferred to common stock in connection with stock dividends or may be used to reduce accumulated deficit, if any.

(C) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make a reserve for technology development by appropriating retained earnings. The unused portion of the reserve is generally added back to taxable income over three to four years after certain grace periods. This reserve may be restored to unappropriated retained earning by a shareholders' resolution.

## 19. Capital Adjustments

At December 31, 2001, capital adjustments are as follows:

| | Millions of Won |
|---|---|
| Valuation loss on investment (Note 8) | W (507,597) |
| Market value method | (575,620) |
| Equity method | 68,023 |
| Treasury stock fund | (524,490) |
| Valuation loss on treasury stock fund | (121,507) |
| | W (1,153,594) |

The Company has been operating a fund for treasury stock amounting to W705 billion since January 2000 for the purpose of keeping the stock price of the Company stable. Accordingly, a loss on valuation of treasury stock fund of W121,507 million was recorded as capital adjustment. In addition, the Company obtained treasury stock of W2,964 million as a result of the transfer from capital surplus to paid-in capital and intends to sell the shares in the near future.

## 20. Sales and Cost of Sales

Information by major industry segment for the year ended December 31, 2001 is as follows:

| | Sales (Millions of Won) | Cost of Sales (Millions of Won) |
|---|---|---|
| Shipbuilding | W 3,783,959 | W 3,032,404 |
| Industrial plant | 589,009 | 579,760 |
| Offshore & engineering | 1,000,393 | 870,243 |
| Engines & machinery | 611,122 | 472,648 |
| Construction equipment | 389,611 | 304,048 |
| Electro & electric systems | 914,766 | 836,412 |
| Others | 115,371 | 95,092 |
| | W 7,404,231 | W 6,190,607 |

### 21. Selling and Administrative Expenses

Selling and administrative expenses for the year ended December 31, 2001 are as follows:

| | | Millions of Won |
|---|---|---|
| Wages | W | 161,514 |
| Provision for severance benefits | | 23,378 |
| Employee welfare | | 45,601 |
| Travel | | 8,594 |
| Communication | | 1,933 |
| Advertisement | | 11,473 |
| Transportation | | 13,300 |
| Rent fees | | 2,947 |
| Insurance fees | | 5,001 |
| Service charges | | 33,599 |
| Taxes and dues | | 1,305 |
| Sales commission | | 129,810 |
| After-service expenses | | 54,300 |
| Depreciation and amortization | | 42,786 |
| Ordinary development expenses | | 27,037 |
| Others | | 119,735 |
| | W | 681,313 |

### 22. Non-Operating Income and Non-Operating Expenses

The Company recognized the following items as miscellaneous income : government subsidy which was not obligated to repay, reversal of education and training fees, gain on forward exchange transactions and reversal of taxes.

The Company recognized the following items as miscellaneous expenses : fees for legal advice, settlement of litigation, loss on forward exchange transactions, loss on valuation of currency futures, interest swaps and supplementary payment of income taxes.

### 23. Income Tax

The statutory corporate income tax rate, including resident tax surcharges, applicable to the Company is approximately 30.8% for this year. The effective tax rate is 19.0%. The statutory income tax rate is higher than the effective rate due primarily to permanent differences.

A. Income tax expenses as of December 31, 2001 comprise the following:

| | | Thousands of Won |
|---|---|---|
| Current income taxes | W | 35,502,623 |
| Deferred income taxes | | (9,284,781) |
| Income tax expense | W | 26,217,842 |

B. The details of income tax assets are as follows (Thousands of Won):

| Account | Accumulated Temporary Difference | Tax effect |
|---|---|---|
| Valuation loss using equity method | W 266,117,978 | W 79,037,039 |
| Reserves | (425,966,666) | (126,512,099) |
| Others | 384,788,731 | 114,282,253 |
| | W 224,930,043 | W 66,807,193 |

### 24. Loss Per Common Share

Loss per common share for the year ended December 31, 2001 are calculated as follows:

| | Thousands of Won |
|---|---|
| Net loss | W (78,120,821) |
| Weighted average number of common shares outstanding | 56,768,284 |
| Loss per common share (in Korean won) | W (1,376) |

### 25. Transactions with Related Parties

Significant transactions with subsidiaries and affiliated companies within the Hyundai Group of companies for the year December 31, 2001 and related account balances at December 31, 2001 are summarized as follows:

Millions of Won

| Related Party | Sales | Purchases | Accounts Receivable | Accounts Payable |
|---|---|---|---|---|
| Hyundai Mipo Dockyard Co., Ltd. | W 120,288 | W 6,100 | W 25,495 | W 1,206 |
| Hyundai Corporation | 158,882 | 19,316 | 72,172 | 10,128 |
| Hyundai Oil Refinery Co., Ltd. | 167 | 178,186 | 24 | 10,507 |
| | W 279,337 | W 203,602 | W 97,691 | W 21,841 |

For the year ended December 31, 2001, the Company has disposed W4,432 million of trading securities and investments issued by affiliated companies within Hyundai Group of companies. In this transaction, the Company recognized loss by W13,242 million.

In addition, the Company has entered into rental agreements of 10,174 million with affiliated companies.

## 26. Financial Information of Industry Segments

The Company is classified into industry segments of shipbuilding, industrial plant, off shore & engineering, engines & machinery, construction equipment, electro & electric systems, and others on the basis of product, feature of manufacturing process, market, and sales method. Financial information of industry segments are as follows:

Millions of Won

| | Ship Building | Industrial Plant | Offshore & Engineering | Engines & Machinery | Construction Equipment | Electro & Electric Systems | Others |
|---|---|---|---|---|---|---|---|
| 1. Sales | W3,783,959 | W 589,009 | W1,000,393 | W 611,122 | W 389,611 | W 914,766 | W 115,371 |
| 2. Operating Profit | 557,792 | (31,033) | 77,155 | 120,100 | 31,155 | 45,057 | (267,915) |
| 3. Tangible & Intangible Assets | 1,171,331 | 141,378 | 236,675 | 520,976 | 99,270 | 298,658 | 2,001,230 |
| 4. Depreciation | (96,897) | (14,341) | (24,368) | (45,263) | (10,514) | (44,596) | (59,092) |

## 27. Adjustment of investments valued using the equity method

On December 31, 2000, the Company valued investments using the equity method of accounting based on recent unaudited financial statements. The audited financial statements of investee companies which were issued after the issuance date of the Company's financial statements were different from recent unaudited financial statements. The Company reflected an adjustment for the valuation of its investments in equity securities, resulting in a decrease of net income by W176,639 million and a decrease in unappropriated retained earnings to W164,936 million. Accordingly, the financial statements of the Company for the year ended December 31,2000, presented herein for comparative purposes, were restated.

## 28. Subsequent events

On January 25, 2002, the Company won a lawsuit against HSI and Hyundai Securities Co., Ltd. for the settlement of claim including a W172 billion of principal and accrued interest (annual interest rate : 5% from July 21, 2000 to January 25, 2002, and 25% thereafter)

Pursuant to the resolution of the board of directors on February 19, 2002, the Company entered into agreement with Hyundai Asan Co., Ltd. to transfer 8,905,000 common shares without any consideration back to Hyundai Asan Co., Ltd. This was legally needed for the Company and its four affiliates to be deconsolidated from the Hyundai Group. On February 28, 2002, the Company was officially recognized to be independent from the Hyundai Group.

# Board of Directors

| Standing / Non-Standing Members | Name | Position | Main Duty |
|---|---|---|---|
| Standing Members | Keh Sik Min | Chairman of the Board of Directors | CEO |
| | Kil Seon Choi | Director | CEO |
| | Byung Ki Park | Director | CFO |
| | Myung Sun Shin | Director | Executive Vice President |
| Non-Standing Members | Sun Ho Lee | Outside Director | Former Director of Korea Export - Import Bank |
| | Joon Hwan Park | Outside Director | Former Director of KEB |
| | Jin Won Park | Outside Director | Lawyer, Shin & Kim |
| | Sin Ok Kang | Outside Director | Lawyer, Kang Sin-Ok Law Firm |

# Company Officers

Hyung Byuk Kim
Chairman
Born in 1935

Kil Seon Choi
Chief Executive Officer
Born in 1946

Dr. Keh Sik Min
Chief Executive Officer
Born in 1942

Byung Ki Park
Chief Financial Officer
Born in 1946

Jae Byung Song
Chief Operation Officer of Shipbuilding Division
Born in 1948

Sung Joon Uh
Chief Operating Officer of Offshore & Engineering Division, and Industrial Plant & Engineering Division
Born in 1947

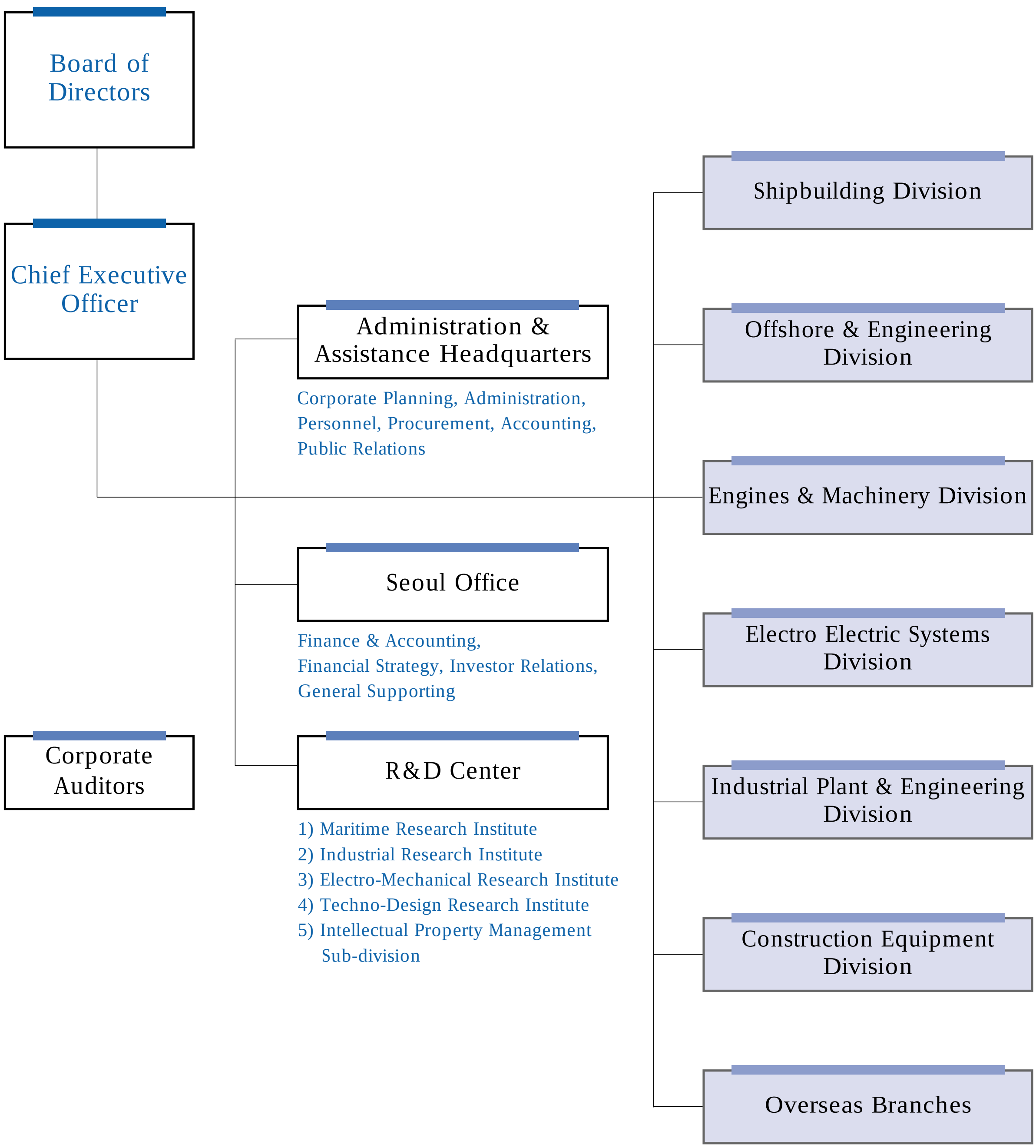
Ik Young Chung
Chief Operating Officer of Engines & Machinery Division
Born in 1944

Young Nam Kim
Chief Operating Officer of Electro Electric Systems Division
Born in 1945

Jong Kie Kim
Chief Operating Officer of Construction Equipment Division
Born in 1943

Myung Sun Shin
Chief of Administration & Assistance Headquarters
Born in 1945

# Organization Chart



# History in Brief

## 1970's

Dec. 1970
Secured orders for construction of two 260,000 DWT supertankers

March 1972
Groundbreaking for the Shipyard

Dec. 1973
Founded Hyundai Shipbuilding & Heavy Industries Co., Ltd.

June 1974
Dedicated the Shipyard to coincide with christening of first two VLCCs

Nov. 1974
Conferred the US$100-million Export Tower

March 1975
Established Industrial Plant Division

May 1975
Completed Dry Dock #3 (1-million DWT capacity)

Jan. 1977
Established Electro Electric Systems Division

Feb. 1977
Established Engines & Machinery Division

Feb. 1978
Changed company name to Hyundai Heavy Industries Co., Ltd.

Nov. 1978
Engines & Machinery Division incorporated as Hyundai Engines Manufacturing Co., Ltd./ Electro Electric Division incorporated as Hyundai Electronical Engineering Co., Ltd.

## 1980's

July 1982
Established Construction Equipment Division

April 1983
Established Special and Naval Shipbuilding Division

Nov. 1983
Awarded US$1-billion Export Tower

Nov. 1983
Inaugurated Hyundai Industrial Research Institute

Oct. 1984
Inaugurated Hyundai Maritime Research Institute

June 1985
Established Offshore and Engineering Division

Dec. 1986
Delivered the world's largest ore carrier (365,000 DWT)

Aug. 1989
Construction Equipment Division incorporated as Hyundai Construction Equipment Industries Co., Ltd.

Dec. 1989
Merged with Hyundai Engines Manufacturing Co., Ltd.

## 1990's

Sep. 1991
Started building Korea's first LNG carrier/completed LNG tank fabrication shop

Dec. 1993
Merged with Hyundai Electronical Engineering Co., Ltd. and Hyundai Construction Equipment Industries Co., Ltd.

June 1994
Listed on KOSDAQ

June 1994
Delivered Korea's first LNG carrier (Hyundai Utopia)

July 1995
Awarded IE Grand Prize

May 1996
Dedicated joint construction equipment assembly plant in Changzhou, China

Oct. 1996
Dedicated joint steel tower factory in Vietnam

April 1997
Acquired ISO 14001 International Environment Management Certificate

Sep. 1997
Acquired transformer factory in Bulgaria

Nov. 1997
Conferred Korea Quality Generator

Sep. 1998
Exported Korea's first gas turbine

Mar. 1999
Awarded Order of Industry Service, Silver Tower

Aug. 1999
Became Korea's first shipyard to receive order for LNG carrier from overseas

Aug. 1999
Listed on the Korea Stock Exchange

Oct. 1999
Contracted management agreement with Samho Heavy Industries

Dec. 1999
Awarded US$3-billion Export Tower

## 2000's

June 2000
Acquired ISO 9001 Integrated Certificate in all divisions

Sep. 2000
Established the second large-scale engine factory

Sep. 2000
Designed and developed HHI's diesel engine for the first time in Korea

Nov. 2000
Selected as main contractor of the government's next-generation submarine project

April 2001
Surpassed 30 million bhp for large-scale engine production

Nov. 2001
Conferred $4-billion Export Tower

Dec. 2001
Included on the world's best ship lists for 19 consecutive years

(Note: Major company news is also highlighted in Major Performance Record.)

# Overseas Network

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**Date of Establishment**
March 1972

**Paid-in Capital**
KRW 380 billion

**Common Stock**
76,000,000 shares

**Number of Employees**
26,090

**General Shareholders' Meeting**
March 2002

**Listing**
Listed on Korea Stock Exchange in August 1999

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